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Every Man's Money.

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Every Man's Money

[THE JOURNAL COVER ILLUSTRATION; FROM A PAINTING BY WALTER DE MARIS]

THE people of a nation which has lately achieved its liberty and independence, at the risk of their lives, are pretty sure to have some fantastic ideas as to their rights and prerogatives.

Often the phantasy relates to money.

We had such an experience about the time of the War of 1812 and for a period thereafter when, to quote the late A. Barton Hepburn, "nearly every citizen regarded it as his constitutional right to issue money."

Something of the same basic idea prevails now but it is clarified by a higher intelligence and by the light of hard experience. Every man now holds it to be his inherent right to issue checks against funds in the bank. So we came by easy stages to a degree of order and intelligence that gives us in practice just about what our forbears in the early part of the nineteenth century regarded as the right of freemen.

By the refining process of hard experiences, citizenship now knows enough to impatiently reject schemes which would tamper with the nation's currency!

And why not? For there is no scheme for creating more wealth by the simple expedient of creating more money, whose operation from beginning to end can not be accurately marked out by turning history's pages.

An ignorant hand at the controls of an electric system may in a moment throw a whole city into confusion and darkness—may paralyze a great transportation system, and if he were allowed to do it, there is many a man—abundantly equipped with words—who by changing a few paragraphs in our Federal laws relating to currency would create even worse chaos in the nation.

So while we smile at the notions and crudities of other generations let it not be forgotten that they were groping up in the dark to our present currency and business plane. We are beholden to them because we profit by their mistakes.

IN this month's cover picture the artist depicts the perplexities which assailed a merchant of the 1812 period when the business day was over.

With "money" issued by men of all degrees of integrity and often no integrity at all—sometimes with good intentions but with little regard to the extent of their issues—he was indeed a shrewd and careful tradesman who could total the day's receipts with the feeling that the bits of paper accepted for his wares were "as good as the wheat."


GILBERT SAFETY BOND
19
DOLLARS

AMERICAN BANKERS ASSOCIATION JOURNAL

Government Liens on Bank Deposits

By THOMAS B. PATON
General Counsel, American Bankers Association

According to an Opinion by General Counsel of the Bureau of Internal Revenue a Bank in Paying the Checks of Its Depositors Day by Day Does so at the Risk of a Loss, Since No Notice Is Required When a Tax Lien Is Filed Creating a Charge on the Deposit.

QUITE a startling opinion, if legally sound, has just been handed down by the General Counsel of the Bureau of Internal Revenue (mem. opinion No. 5432; published in U. S. Daily, Jan. 11, 1929). It is to the following effect:

"A notice of an income tax lien duly filed and recorded, operates as a lien on bank deposits of the tax-payer and on debts due to the tax-payer when specific notice of the lien has not been served on the bank or on the debtors."

According to this, every bank which daily pays checks of its depositors, does so at the risk that the amount paid out is subject to tax lien for if, in any case, the bank should pay a check and it should afterwards develop that the deposit at the time of payment was subject to lien, the bank would be responsible.

It Is Impracticable

IT is absolutely impracticable for a bank to know whether or not tax liens have been filed in the case of every particular depositor at the time it pays his checks. Notice of a tax lien upon the property of a tax-payer might be filed in the office of the Clerk of the U. S. District Court of the Judicial District in which the bank is located just a moment before his check was presented and paid at the bank, and under this opinion the bank would be responsible for the amount of the deposit so paid because, when paid, it was chargeable with a Government lien. Even if the bank had a clerk, stationed at the telephone at the moment tax liens were filed against any of its depositors, there would always be danger that a check would be paid after the filing of the notice of the lien and before the bank received the information. Such a ruling, if literally enforced, would be intolerable. The business of paying checks could not be carried on except at the risk of the bank.

The same ruling applies to all debtors, but we will not concern ourselves with their troubles.

The Internal Revenue Bureau seems to sense the impracticability of enforcing such a ruling for its General Counsel, in the course of his opinion says that "to enable depositaries (such as banks, trust companies and other holders of assets or credits of delinquent tax-payers) to become advised of the existence of tax liens, collectors have been permitted to furnish depositaries with copies of the notice in exceptional cases"; but this crumb of comfort is swept away when he adds: "these copies are not furnished in all cases; indeed, they could not be, for in a great majority of cases where notices of lien are filed, the exact location of the tax-payer's property is unknown to the collector filing the notice" and these copies of notice are not furnished "because of any legal right to receive the same."

How May the Bank Know?

A BANK deposit is in the nature of intangible personal property, being a credit in the hands of the bank owing or "belonging to" the depositor-tax-payer and if it be conceded that the statutory lien attaches upon filing notice as a charge upon such property or credit, nevertheless the property is of such nature that it is absolutely impracticable for the debtor bank to know of the existence of the lien or charge before it pays the tax-payer's check in the absence of other notice than is given by the mere filing of the lien. The same thing is true of debts—a debtor cannot generally know when he pays his debt to his creditor, that the latter may be a delinquent tax-payer against whose property notice of lien has been filed.

Section 3186 of the U. S. Revised Statutes provides that an unpaid tax "shall be a lien in favor of the United States upon all property and rights to property, whether real or personal, belonging to such person (delinquent tax-payer)" but that "such lien shall not be valid as against any mortgagee, purchaser or judgment creditor until notice thereof has been filed by the collector" in the proper filing office as designated in the section. The filing of such notice, however, does not actually convey information to the bank that the credit in its

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When a Bank Turns Farmer

By ROBERT STEWART
College of Agriculture, University of Nevada

How an Illinois Bank Farms Ten Thousand Acres At a Profit. Demonstrates Business Management Principles Can Be Applied Successfully to Agriculture. Larger Farming Units Believed Capable of Greater Economies of Production As in Industry.

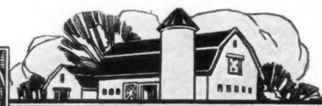
AMERICAN industry is the envy and marvel of the world. Its success, during the past fifty years, has been achieved by the use of land, labor and capital which have been coordinated by efficient management into vast efficient productive units. Each factor is essential to the success which has been achieved but management has been the most important and difficult to secure. Able management in industry is so rare that it is eagerly sought after and when discovered it virtually commands its own terms. In industry the merger of many small units into larger ones has occurred in order to take advantage of all possible economies of production.

In agriculture, on the contrary, success in farming has been attempted by the aid of only three factors, land, labor and capital, and management has been most conspicuous by its absence. The small, individual unit has prevailed. Agriculture has an abundance of land and labor and there is two-thirds as much capital invested in farming as there is in all banks, all railroads, mines and oil wells, the electric light industry and all manufacturing industries combined. But there has been no selection as to managerial ability in farming.

The conception that anyone can farm is quite commonly accepted as true. The small individual unit has prevailed and farming in America is now carried on in a large number of small farms. The government, in its disposal of the free government land, gave away land liberally without regard to the settlers ability as a farmer. The opportunity to go into farming for himself has been regarded as the heritage of the American youth. All that was needed was ambition, resourcefulness and small amount of capital.

Result Has Been Chaos

WHEN Europeans flocked to America to take up land under our liberal land laws some able farm managers came but many were of the type that needed guidance in a highly competitive society. Fortune gave them all one hundred and sixty acres of land and early economic conditions enabled most of them to hold on until the rising value of land enabled many of them to take big profits from the general rise in land values but they never were really successful profit-making farmers.



A Newcomer

MANAGEMENT in its accepted industrial sense is a newcomer to the science of farming. A bank has proved its value in producing results on the right side of the ledger. The experience herein described is of two-fold importance. There are many banks with lands on hand that might be made into interest-paying investments. There is a possibility that help in the solution of the so-called farm problem lies in the trend toward mergers which is the commonplace of virtually every other form of business and industry today.

The result of such a policy has been chaos in so far as the production of business types of farmers is concerned. What would be the effect on farming if the same care was exercised in selecting farmers as has been taken in selecting management in industry?

The University of Illinois has kept an accurate record on 175 corn belt farms for a number of years. A three years' summary of this record shows that there is an average difference of almost $3,000 per year in the net income of the best managed group of farms as compared with the group which was poorly managed.

When these 175 farms are divided into five groups of thirty-five farms each the following significant results are obtained:

Farm Earnings on Illinois Farms

		Interest on Investment	Net Income
1st	35	5.8	$3,480.00
2nd	35	4	2,400.00
3rd	35	3.3	1,980.00
4th	35	2.5	1,500.00
5th	35	..	540.00

The difference in net income between the lowest and highest group is almost $3,000 which is due almost entirely to management.

The reason for the higher net income in the successful groups was due to bigger crop yields, larger amount of livestock kept, more efficient livestock, the kinds of crop grown, efficient marketing methods, and the efficient use of power and machinery and reduced labor costs.

This evidence very clearly demonstrates the great value of management in successful farming operations. There is a crying need for efficient farm management in the farming industry. All farmers are not endowed with this rare quality. Throughout the country this need for better management of farms has led to the organization of farm management service by individuals, trust companies and particularly by banks. In Illinois alone there are at least fifteen well trained college graduates who are devoting their entire time to the management of farms for other people.

Must Make Farms Pay

ONE of the most successful of these enterprises is that carried on by the Citizens National Bank of Decatur, Illinois. This bank found itself a few years ago in control of a considerable amount of farm land for which its trust department was responsible. The bank finally organized a Farm Management Department with W. W. McLaughlin in charge. Mr. McLaughlin was born and raised on a farm, and trained in the College of Agriculture of the University of Illinois, all of which was supplemented by five years' experience in the management of farms and by seven years' successful experience as Farm Adviser for LaSalle County Farm Bureau.

He now has 10,000 acres of land under his management. This land is being farmed by twenty-eight different tenants. Mr. McLaughlin is in active charge of the entire group as farm manager. During the summer months he regularly makes the rounds of the farms. It is up to him to make these farms pay as an investment. The bank expects results on the right side of the ledger and is not interested in excuses. He drives his car about 3000 miles per month while making the rounds of the farms under his supervision.

Has 10,000 Acres Under His Management

The first step in Mr. McLaughlin's success as a farm manager is to secure the cooperation of the tenant. It is imperative that the farm manager have the cooperation of good farm tenants. He sells the tenant the idea that he is there to help the tenant make more money. When he realizes that it means more money to him, the tenant soon becomes interested in better seed corn, better planned crop rotations, and soil improvement. These are no longer abstract ideas but become very practical things to the farmer tenant.

Noteworthy Yields

THE influence of good seed corn was demonstrated by Mr. McLaughlin to his farmer tenants in a very significant way during the past season. Each of his tenants received a bushel of good seed corn which cost $8.50 per bushel. As this bushel was enough to plant eight acres thus insuring a supply of good seed for next year the differences in yield obtained by the tenants this year was noteworthy. G. H. Malone of Emery Station, Illinois, received an increased yield of eleven bushels per acre over ordinary seed corn, while George Henry of Hammond, Illinois received an increase of eight bushels. In discussing these results Mr. McLaughlin said.

"These are rather unusual increases and more than one could expect on the average but it is interesting to note that in every case where this tested seed was planted besides untreated seed that there was an increase in yield and that the average increase was about five bushels."

The tenants are now vitally interested in improved seed. They have over 400 bushels of seed from the eight acre plots stored for use next spring. One tenant who never before in his forty years' experience as a farmer had ever field-selected his seed corn, now has twenty bushels of hand-picked seed stored for next season. Discussing results further, Mr. McLaughlin said:

Tenants Can Afford It

"A FURTHER demonstration that good seed will sell itself to good tenants is shown by their signed agreement to send more than 200 bushels to seed corn testing laboratories this winter. We have arranged to have the tenant pay a portion of this testing expense and he can afford to pay it because not only will the disease-free seed yield better, but it will frequently grade higher on the market.

"George Geikle, who operates one of the Burnes farms near Elkhart, Illinois, sold some of the corn to the Elkhart elevator at a premium for October delivery. His corn from disease-free seed graded No. 4, while the other part of his crop graded No. 5.

"The elevator paid three cents per bushel more for No. 4 corn and since this field was yielding about sixty bushels per acre the net profit as a result of the experiment was $1.80 per acre."

The emphasis placed on the selection of good seed corn by the field selection of the seed, intelligent culling of the selected seed, testing the seed for disease, the selection of proper varieties and the treatment of the seed for disease, is only a small part of Mr. McLaughlin's program for more profitable agriculture.

He has prepared a basic farm map for every farm under his direction. He has tested the soil for acidity and indicated on the map of each farm where clover will grow and where it will not grow. He has also indicated on each map when limestone is needed and outlined other plans for soil improvement. He emphasizes to his tenants that unless the soil fertility is maintained or improved, that the income from his soil cannot continue. He insists that a reasonable amount of limestone for which the bank pays should be hauled and spread by the tenant. He insists that legumes should be used extensively and occupy a definite place in the rotation. He insists that a part of the legume be plowed under as green manure because one ton of a legume such as sweet clover when plowed under is equivalent to eight or ten tons of barnyard manure for soil improvement.

It is fully recognized in his plans that soil fertility alone is not the governing factor in increasing or decreasing crop yields. The proper practices for better and big yield are followed under Mr. McLaughlin's direction. Some of the farm practices which are emphasized are the spreading of manure at the proper time, preparations of a suitable seed bed, plowing at the right time and to the proper depth, seeding at the right time, the elimination of weeds and suitable cultivation.

The bank has developed a farm bookkeeping system adapted to the farms under the direction of the farm management department. Full farm accounts are kept by the tenants so that an analysis of the farm business may be made which will contribute to the more efficient management of the farms. When the difference in the efficiency of farm operators varies as much as $3,000 per year it is important that accurate farm accounts be kept so that the leaks may be detected and thus help in making the farm more profitable.

Because of the large number of farms under his direction, Mr. McLaughlin is in a position to make quantity purchases and thus secure worthwhile dis-

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The Role of the Foreign Adviser

Answers to Queries Asked of Fiscal Advisers to Foreign Nations. Why Governments Call for Foreign Experts and Why They Want Americans. How They Are Appointed and How They Work Abroad. Unique Relations with the U. S. Government Develop.

DR. EDWARD W. KEMMERER of Princeton University in an address before the Bond Club of New York said:

"One of the questions most frequently asked me is: 'Why is it that governments call in foreign advisers?'

"Consider what it means for a government to call in foreign advisers. It is a sort of a confession in the first place that their own people have made a mess of things. Most people are strongly patriotic. Most people believe that their own nationals can handle these problems as well as the nationals of other countries, and they have a strong feeling of nationalism — national patriotism — and yet, despite that, many governments have called in foreign advisers.

"If a government is going to call in a foreigner and get any good from his advice, it must put all of its cards on the table, or, to change the figure of speech, it must bring all the family skeletons out of the closet, and most people do not like to do that. Can you imagine such a thing as the United States government saying: 'Well, we have made a mess of this income tax problem, of this tariff problem, or of some other problem of that kind, and we don't know what to do with it. Let us call in some British experts to come over here and advise us what to do.' Many countries have done that very thing. I have served ten different countries and a number of other people have been working in the same field.

Reasons Why

"ONE of the answers to the question why governments invite foreign advisers is that they believe the foreigner is free from local prejudices. Most financial problems in any country are wrapped up in politics. Political parties have taken sides on them, and they have not made much progress in the solution of these problems, because of these various conflicting political interests. The foreigner comes in without local political prejudice.

"Then there are always vested interests in any financial problem, whether it is the currency, banking, tariff, or taxation. Any change that is made is going to step on someone's toes, and these strong, vested business interests have been in conflict over the questions of reform. The foreigner is not connected with any of these business interests. He comes in with an open mind, and can approach the problems without business prejudice.

Americans Are Invited

FOREIGN governments invite American financial advisers chiefly because of the political disinterestedness of the United States; because of this country's financial progress; and because they think it will help them to obtain American capital, says Dr. Kemmerer, who has filled this rôle in ten countries and is now undertaking to place still another nation—China—on the road to stability. And the foreign governments that ask for expert advice usually take it.

"Then again—and this is true of all countries, but I think it is particularly true of Latin-American countries—blood ties are strong. In many South American countries it is a small group at the top that really controls the country. There are a great many Indians in some of these countries, and a great many people of the ignorant and lower classes, and it is generally a rather small group of people that run things. These people are closely related, and blood ties, parental relationships of one sort or another, play a much larger role in the business and politics of Latin-American countries generally than they do with us. The foreigner comes in free from any prejudice of that kind. These, I think, are the principal reasons why governments call in foreign advisers. It seems to me that it is a highly creditable thing for any country to be able to so rise above its national prejudices and feeling as to say: 'We will call in foreign expert help.'

Nearly All Want Loans

"WHY do they call in Americans; why do they not call in Frenchmen and Germans and Englishmen? The answer is, they do sometimes.

"There have been a number of Englishmen called in for such work in various countries, but I think in recent years that there have been more American experts called in than experts of any other nationality. Americans are called in partly because most of the world believes that we are not seeking territorial aggrandizement and the extension of our political power over other countries.

"Another reason why American advisers are chosen is because of the financial progress of the United States in recent years. Naturally foreign countries turn for financial advice to the nationals of the country that they think is financially most successful. Still another reason, which may be selfish, but it is an enlightened selfishness, is that almost every country in the world wants to borrow money. This has been true of most of the countries for which I have served as financial adviser.

"Now, America has been lending money extensively in recent years to foreign countries, and they are today looking to us for loans. They naturally think that if they straighten out their finances, if they reorganize their currency, and their banking and taxes, and budget systems along the lines Americans understand and believe in, they are more likely to obtain a favorable reception when they seek loans in this country, than if they do not reorganize along these lines.

First-Class Men Wanted

"A QUESTION that is frequently asked is: 'How are your commissions appointed?'

"In various ways. In a number of cases I have served as an individual but on the recent commissions, for Poland, Ecuador, Bolivia, Chile and Colombia, and for the one to China, the form has been this: The government has invited me to act as financial adviser, and I have said:

"'I want to associate with myself a group of first-class men to help me.'

"Accordingly I have been authorized to employ such expert assistants as I should desire. These men have been responsible to me and I have been responsible to the government, but we have acted as a commission and all reports and recommendations have been signed by every member of the group.

Experts in Several Fields

"ANOTHER frequent question is: 'What is the usual type of commission you have?' The usual type is something like this: I have acted as

chairman, and generally given my attention particularly to currency and central banking and public credit.

"I have been assisted by five or six experts in special fields. For example, there is usually an expert in practical banking. There is an expert in accounting, budget and fiscal control, an expert in taxation, one in customs and customs administration, and in Poland we had an industrial efficiency expert. In one South American country we had a railroad economist and in another a railroad engineer. Then we usually have several secretaries, and these men are usually economists, that is, men with special training in economics and a considerable amount of practical experience. Then we have all sorts of assistants furnished by the government which we are serving.

"A common question is: 'What are the relations of your commissions to the United States government?'

"There have been occasional charges that our commissions have been instruments of American imperialism, or instruments of the New York bankers and of the Wall Street crowd, and so on. I would never go to a country as financial adviser, if the United States government were opposed to my going. In several cases, the commissions that I have organized have originated in requests sent by the foreign country to the United States government.

"My relations with the United States government in these matters have always been very satisfactory. If I have wanted material in the possession of the government that was readily available and not confidential, it has been placed at my disposal, and the government has cooperated with me in every way reasonable; but I want to emphasize the fact that on every commission, I have gone as a private citizen, with absolutely no obligation whatever to our government. I have traveled on a private passport, and my obligations have been 100 per cent to the government which I have been serving. My relation to the government I was called to help has been that of a lawyer to his client or a doctor to his patient, and I think every member of the commissions that we have had has felt that he owed 100 per cent loyalty of service to the country which he was serving. Moreover, the United States government has never, in any way, shape or manner, tried to interfere with our work or influence our recommendations.

"There are two types of commissions. For lack of a better name, I might borrow the terms from the medical profession, and call them the diagnostician type and the general practitioner types. The diagnostician type is the type that goes into a country, studies the situation, diagnoses the disease or diseases—there are usually a lot of them—prescribes the remedies, and gets out while the getting out is good. That is my type.

"The other type is the general practitioner type that goes in and does its diagnosis work and stays afterward for several years' time and tries to administer its recommendation. Mr. Millspaugh's work in Persia and Jeremiah Smith's work in Hungary were this type. There is a place for both types of commissions. The kind of men needed for one type are often different than the kind needed for the other. One physician may be an excellent diagnostician, but a poor practitioner, and vice versa.

Suggesting Why Governments Invite Foreign Advisers

Disagree With a Smile

"AS to the field covered by the work of our commissions, I can convey the idea by taking the ten countries which I have so far served.

"Nine of the ten countries have established a gold standard system as a result of our work and the tenth, Mexico, reformed its gold standard system. In eight of the countries there was involved the creation of a new central bank, or extensive reforms in an existing central bank. In six there was a new general banking law, or a thoroughgoing revision of the existing general banking law. In five there was a new budget law. In seven there was a revision of the systems of accounting, audit and the budget. In eight there were extensive reforms in the tax laws; in five, in the customs law. In one of them a new customs tariff and in two a new customs administration law. In eight there were recommendations on the subject of foreign loan policy. In four we made recommendations concerning reorganization of the government railways, and in two concerning industrial monopolies.

"The plan of our work is simple. We usually know that we are going a month or so in advance of our sailing, and we collect all the material we can get in this country and try to have conferences with people in this country who know about the financial and economic conditions of the country we are to serve. We request the countries to collect material in advance of our coming and organize it so that when we arrive we will lose no time in getting down to business. We have hearings as soon as we arrive, and listen to the people that know and people that do not know whom we have to listen to for political purposes. We get all the information we can. We put our questionnaires to various people. We have all the important newspapers clipped, and the newspaper material classified, and this material is summarized for us and gone over regularly. We divide ourselves into subcommittees, and each subcommittee works on its own problem.

"Meanwhile, we have all informal conferences and the members of each committee daily talk over these problems with the other members of the commission. The whole commission meets from time to time to discuss knotty problems even in the early stages of our work. We are in continual contact with the Finance Minister and other prominent people in the government. Each subcommittee formulates its recommendations, and the commission as a whole then goes over them, article by article. We do not use any gloves among ourselves, but when we disagree we try to do it with a smile. Every report we have ever made has been unanimous.

Have to Be Dreamers

"THE question is often asked: 'Are you influenced by local politics?' No; we go to the country as economists, not as politicians.

"We take the position that we are responsible for our recommendations as economists. The government is responsible for what it does with them. If there are political difficulties in the way, if our recommendations have to be whittled away and changed for reasons of political expediency, we take the position that that is not our job. The government must do the whittling. We recommend what we believe to be economically sound and workable, and then turn

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The Money of the Masses

By JOSEPH S. MCCOY
Government Actuary

Aggregate Individual Wealth in the United States Estimated. Figure Placed at Three Hundred and Ninety Billion Dollars. Total Annual Income of Individuals is Fifty-Five Billions. More than Five Billion Dollars Passes Through Death Yearly.

Raw Material

THERE is disclosed here the raw material of banking. Mr. McCoy has surveyed the original sources of deposits—individual incomes—and has analyzed the wealth of the residents of the United States into its component parts, showing whence it comes and whither it goes. For years, the statistical expert of the Treasury, his figures may be considered as the last word in the approximation of the dollars and cents value of the people of this country. They represent an appraisal of a population.

THE total wealth of all the residents of the continental United States at the beginning of 1928 was approximately $390,000,000,000. At the beginning of 1929 it was even greater.

This stupendous figure is not a blind guess, plucked out of the air, but is a conservative estimate based upon the most authoritative data—the Federal tax returns. It represents the total individual wealth of the inhabitants of all but the island possessions of the nation, exclusive of all untaxed realty and Government property, but including all the income from crops, mines and factories for 1927. The results of 1928 are not yet available although the upward trend has been unmistakable.

In contrast to the enormous sum of the wealth of the United States is the individual share. The average annual income for every man, woman and child in the country is only a trifle over $462.

Of the grand total of the individual wealth of the nation the total net income of the people is some $55,000,000,000. Close to $5,150,000,000 in wealth passed through death within the year 1927. That is, about 1.3 per cent of the total wealth of the United States, or about 9.3 per cent of the total annual net income of the people passes by death annually.

Earners of Income

THESE are the facts of wealth, the fruits of prosperity. The evidences of this aggregation of treasure and how it accumulates are found in the great masses of statistics compiled each year by the Federal Government. Necessarily the most recent of these completed statistics are as of a year ago. Not only are the results of the struggle for wealth disclosed by the official figures but also the income-producing powers of the great classes of the workers who are the inhabitants of continental United States.

The number of persons enumerated by the last census, that of 1920, within the limits of continental United States, ten years of age and over, was 42,289,969 males and 40,449,346 females. The number of these engaged in gainful occupations was given as 33,064,737 males and 8,549,511 females. That is, 78.2 per cent of the males and 21.1 per cent of the females were earning income.

Of these males 2.2 per cent were less than fifteen years; 7.7 per cent from fifteen to twenty years; 59.6 per cent from twenty to forty-five years, and 30.5 per cent over forty-five years of age. Of the females, 4 per cent were under fifteen years; 16.5 per cent from fifteen to twenty years; 61.1 per cent from twenty to forty-five years, and 18.3 per cent over forty-five years of age. This indicates that girls both start and stop work earlier than do the boys.

Majority Escape Tax

OF these males engaged in gainful occupation in 1920, 29.8 per cent were occupied in agriculture, forestry or animal husbandry; 3.3 per cent in mining; 32.9 per cent in manufacturing and mechanical industries; 8.6 per cent in transportation; 10.8 per cent in trade; 2.3 per cent in public service not otherwise classified; 3.4 per cent in professional service; 3.7 per cent in domestic service, and 5.1 per cent in clerical occupations.

The percentage of the women engaged in these occupations in 1920 were as follows: Agriculture, 12.7 per cent; mining, less than one-tenth of one per cent; manufacturing, 22.6 per cent; transportation, 2.5 per cent; trade, 7.8 per cent; public service, 0.3 per cent; professional service, 11.9 per cent; domestic service, 25.6 per cent, and clerical, 16.7 per cent.

At the present time, out of a total population of about 119,000,000 for continental United States there are some 45,000,000 men, women and children ten years of age and over engaged in gainful occupation. The vast majority of these income earners do not receive incomes large enough to require them to make income tax returns.

The latest preliminary report on "Statistics of Income" was issued last November, and covered the returns for the fiscal year 1927 that were filed prior to August 31, 1928. There were 4,122,242 returns tabulated in that report. By the end of the year, with complete returns, this number will amount to about 4,180,000. This means that there are about 4,180,000 separate individuals who make such returns. About 1,600,000 of these are from single persons without dependents, and 2,580,000 from married persons living together, or heads of families.

An Impossible Maximum

THESE returns indicate that the total income tax returns for 1927, filed during the calendar year 1928, will account for persons receiving income, numbering, together with their families and other dependents, about 12,000,000 separate individuals. Of these 12,000,000 persons, somewhat less than 2,500,000 will actually pay income tax. The total net income of these persons will be returned at about $18,100,000,000.

The total income actually returned by about 1,700,000 individuals with income that does not individually exceed their specific exemptions, will be about $4,500,000,000, or a total net income returned for the calendar year 1927 of some $22,600,000,000.

This $22,600,000,000 must be the income of all those returning, together with the incomes of their minors and dependents, all totaling some 7,000,000 individuals who actually receive this total income. This leaves some 38,000,000 persons engaged in gainful occupation that do not directly or indirectly make returns of income to the Federal Government. This means also that none of

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The Diary of a Bank Examiner

By ARTHUR B. MASON

After Three Days' Search, the Last Note On the Bank's List is Found. Homer Has Hard Luck. Where Jones Lived. Brown Comes In and Pays Up With a New Note. Gus Takes His Car With Him. Cashier Kicks Liability Ledger Back Under Counter.

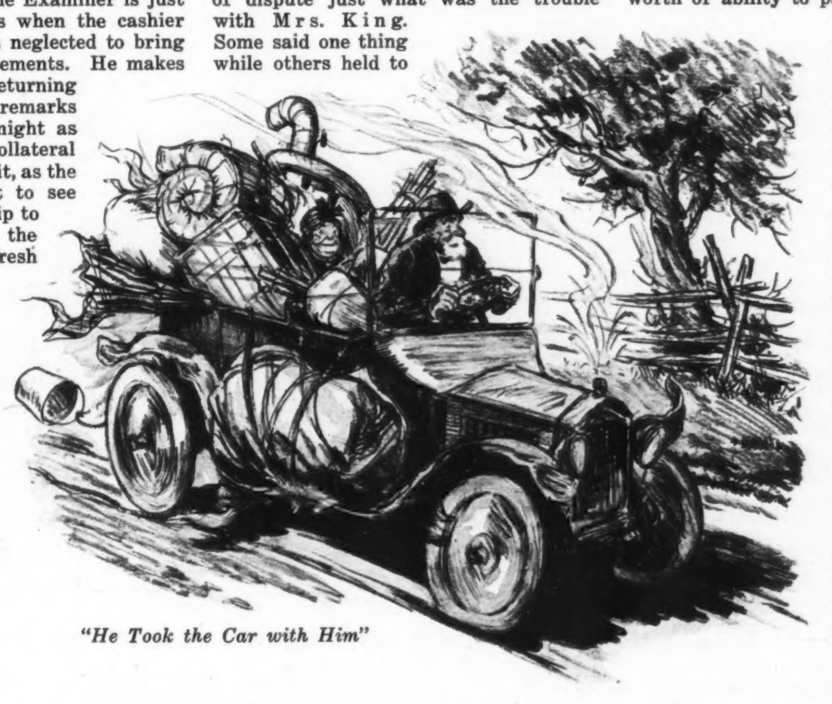
EXAMINATION is resumed bright and early the next morning with the cashier all set to make it snappy, as he is determined to be rid of the Examiner at least by evening.

After waiting a few moments for the directors to appear the Examiner is just starting on the notes when the cashier discovers that he has neglected to bring out the financial statements. He makes a trip to vault, returning with statements and remarks sheepishly that he might as well bring out the collateral file while he is about it, as the Examiner may want to see that too. Another trip to the vault produces the collateral file and a fresh start is made on the notes, when in comes a clerk calling the cashier to the 'phone.

He finds it is friend wife, who is feeling rather peevish today, and wishes he would not ask the Examiner to dinner today. It is agreed that it would be much better to let the Examiner rustle his own meals. It is so arranged and, if the cashier only knew it, very much to the relief of the Examiner himself.

With more or less tribulation the Examiner finally reaches the note of Homer C. King for $435.83 which has run for over two years without change and no interest paid for past six months and is unsecured. From all appearances not a very desirable asset and should be disposed of without much discussion. But the Examiner does not realize the amount of irrelevant information he has laid himself open to when he asks about Homer. Cashier states that Homer has had a lot of bad luck and that sickness in his family has set him back a lot. His wife had a long and serious sick spell and had to be sent to a hospital, in fact part of the proceeds of this note went for her bills and when she recovered and returned home, Homer took a turn at it on his own account and was flat on his back for quite a spell.

At this point the remaining two directors wake up and evince a keen interest in the personal affairs of Homer. It seems that from all accounts, while brother Homer and his wife had been sick, they did not have the same complaint and it had always been a matter of dispute just what was the trouble with Mrs. King. Some said one thing while others held to a different trouble, but it was generally agreed that she certainly was sick. Homer himself did not appear to have anything the matter with him serious enough to worry the populace with, or perhaps the outcome was a matter of indifference to them but, at any rate, it did not occupy the public mind as did his wife's sickness.



"He Took the Car with Him"

Jones Was Dead

THE Examiner makes a fruitless effort to stem the flood of oratory at this point but without success as this seems either to be what the two directors have been waiting for, or it is the only line on which they feel able to converse with entire comfort.

Further discussion brings out the fact that the present Mrs. King is Homer's second venture in the matrimonial field, and that while he had no children by his first wife his second presented him with a daughter who had married a man by the name of Jones and they lived on the east half of the northwest quarter of section twenty-three.

So far no news as to King's financial worth or ability to pay, and the Examiner feels that it is quite time to find out and go on with the notes, but he has not reckoned with the directors, for it is a very keenly disputed point whether this Jones lived on the east half of the northwest quarter or the west half of the northeast quarter and, moreover, it was section thirty-two and not twenty-three as before stated.

After considerable more conversation it was finally ascertained that after all Jones was dead, so was not living any place at all, and his widow had married again and left the country altogether.

These various points having been agreed upon and the directors having quieted down, the Examiner endeavors to learn something about Homer himself if possible.

Cashier admits that King is a renter and has little beyond his small farm equipment and his reputation as a hard worker with which to pay the note, but the bank feels quite confident that given time and favorable crops and prices he will in time pay out.

This discussion has taken up a large amount of valuable time and as one director has silently withdrawn during the next half hour, the Examiner excuses the other one as he feels it might facilitate matters if they were not present.

Cashier is called to the counter and returns in short time and happily asks the Examiner if he remembers that note

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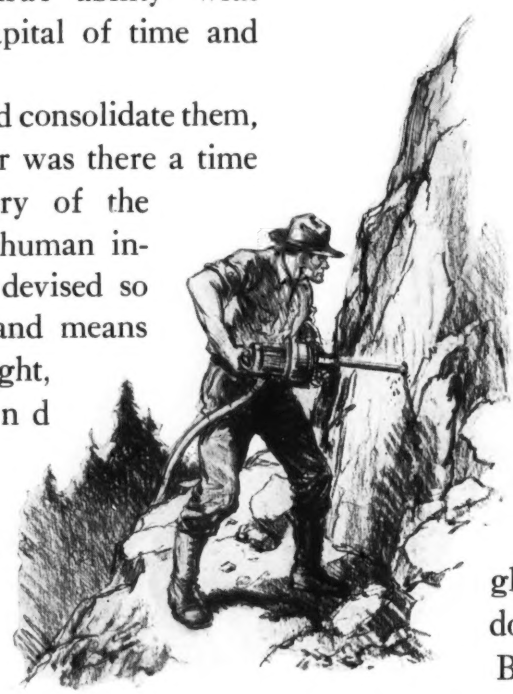
A Time for Consolidations

WHAT is being done with banks as institutions, many individuals in banking should do with their own personal ability—with their own capital of time and energy.

They should consolidate them, because never was there a time in the history of the world when human ingenuity had devised so many ways and means to trap thought, time and money.



The great game of the age is to capture the other fellow's attention—to divide it and to subdivide again and again.

Every waking moment is filled with attractions and distractions—many of them thrust upon him involuntarily—all of them clever, alluring, and presented in the guise of the indispensable.

So it comes about that the average man is giving time and attention—and that means a portion of his life—to things of little moment.

His thought and his energies are spread out too thinly. If he merged his interests into fewer things and consolidated his energies into the realization of a single ideal he would do better.

Bad as it is for a community to be overbanked it is worse for an individual, especially a young man, to be *"overbunked"* by the hundred-and-one distractions which nullify the higher purposes of life and leave him no time to think in an age that is crying out for thinkers. Be jealous of your time and attention.

Concentrate and let the babbling world go by!

BY JAMES E. CLARK

A New Trend in Trusts

By CHARLES F. SPEARE

Some Corporations Are Stock Trading Enterprises Though Called Investment Trusts. Many New Companies Formed to Operate in Market Rather Than Investing for the Long Pull. Promotion of Trusts Gained Momentum in Recent Months.

IS the investment trust becoming a financial fad and are the original conceptions of a corporation devoted to the science of diversified security holdings being retained? These are questions that properly may be asked as a result of the activity in the investment trust world the past year.

To use the slang phrase, "Everybody is doing it." Big investment trusts are being created under strong auspices. Little trusts are being formed by relatively little men. All sorts and conditions of securities are being bunched together in companies with the idea presented to the public that in this way a maximum of safety, as well as a high return on the securities of the holding company, may best be obtained. In Wall Street, when the market goes up, it is whispered that the investment trusts are absorbing stocks. When the market goes down it is these same trusts that are reported to be giving it its strongest support. In the background stand the investment trusts with $400,000,000 in cold cash whose managers are hoping and praying that some day stocks may drop to a level where it will be more profitable to buy them than to lend out this money at what have been the highest rates on call in eight years.

At no time since the investment trusts began to blossom as a factor in American securities, and in the securities of every country on earth, has there been such momentum in promoting new trusts and presenting their securities for sale to the public as in the past six months. Scarcely a day passed during November and December that did not bring out a new trust of some kind. The movement has continued into 1929. There seems to be no end to it.

Doubled in a Year

FROM the most careful investigations that have been made, it appears that there are at present between 200 and 225 separate trusts representing an aggregate in debenture bonds, common and preferred stocks, of $1,250,000,000. This is nearly double the figure that was accepted as approximate a little over a year ago. Of $624,000,000 domestic stock financing in the month of December, over 40 per cent represented shares of investment trusts, so called. The new trusts have been of many sizes, ranging from $2,000,000 to $5,000,000 up to $104,000,000, with intermediate companies whose capitalization is from $25,000,000 to $70,000,000. Perhaps the most significant tendency has been that of establishing trusts to deal in, or hold, special classes of securities.

"In and Out"

PHENOMENAL activity in the stock market has produced possibilities of greater profits from in and out operations on the exchange than from careful and diversified investments in conservative securities which has been claimed as the field for the investment trusts. Of late there have been formed so-called investment trusts which concentrate their activities in the market and take their profits from price fluctuations instead of through dividends and interest.

This is the antithesis of the original investment trust idea, and more American than British in its development. It expresses a preference for and the belief in, for instance, the stocks of public utilities, or those of insurance companies, or banks, or perhaps of chain stores, oil producing and refining companies, or of those representing aviation and its collateral industries, while one of the most recently created is to deal exclusively in the shares of tobacco properties. This is a far cry from the strict limitation of some of the older investment trusts to the purchasing and holding of a small percentage of their assets in any one kind of stocks, and to the stock of any one company in a representative industry. The years 1928 and 1929 in the investment trust world differ greatly in this respect from the lines on which trusts were established and gained their prestige between 1925 and 1927.

There is scarcely an important banking group today that is not identified, either directly as principals or indirectly as stockholders, in an investment trust. Some of them have admitted their shares to public markets. Others are privately owned and administered. Participation in them is a favor that the managers give to their best clients. It would be interesting reading if a list of the latter could be published, for this would reveal the existence of a considerable number with assets ranging from $5,000,000 to $15,000,000 and a record of extraordinary profits in the past two years.

Then there are dozens of little trusts which also are either of public character or privately administered, many of them under the auspices of small investment houses or members of the New York Stock Exchange. They crop up almost daily. They are one of the side issues of a period of intense public interest in securities. To a large extent they owe their existence to the success of some of the old-established trusts, and reflect competition between groups or firms who are trying to imitate or to duplicate some one else's idea.

Therefore it seems that the investment trust has become something of a financial fad. The faddists in this particular branch of management of securities have had the sense to confine their operations to a market about which they know something and with which they can keep in close touch. A majority of them limit their purchases to American securities. This is only part of the function of the true investment trust which seeks to capture the most attractive securities in every active market of the world, and balances what may be temporarily unfavorable conditions in one country with favoring conditions elsewhere. In other words, these new trusts are more national than international in character, which does not mean that their managements have a prejudice against foreign securities, but that they admit their ignorance of foreign values and steer clear of them.

Traders Rather Than Investors

NOW, as to the degree to which the newer investment trusts, so called, are adhering to the investment theory on which such companies are founded.

Reading between the lines of the prospectuses of some of these companies, and listening to the arguments of those whose business it is to sell their securi-

(*Continued on page* 815)

New Bond Market Psychology

By H. G. PARKER

Standard Statistics Company, New York

Bond Market Price Decline Hit Highest Class Issues Hardest. Sales to Provide Funds for Call Loans Made with Securities Offering Most Profit. Railroad Bonds Bore Brunt of Selling. Speculative Issues Little Involved in Liquidation Movement.

A YEAR ago the outlook for the bond market of 1928 was for a continuance of the activity and strength which had characterized it in the two preceding years and even for an augmentation of those characteristics. For the first four or five months of the past year these predictions were fulfilled to the letter, and bond prices reached their peak for a decade.

In June of last year, however, principally because of widespread public interest in the stock market, with its resultant high rates for money, bond prices began to decline and the active bond market became a thing of the past. Bond yields could not compete with the returns from call loans for stock market purposes, and banks and financial institutions generally adopted a policy of liquidating, in part, their bond accounts to provide funds to be supplied to the stock market in the form of call loans.

What sort of bonds were sold? Did these banks, insurance companies, and prosperous corporations dispose first of the bonds which they believed were least desirable, or did they sell those which brought them the lowest income return? To provide the answer to these questions, an exhaustive study was made of the market action of several groups of representative bond issues during the year just passed. The results of this study of each major group are reproduced in the accompanying chart.

The Downward Trend

THE chart comprises the market action of some 225 representative investment bond issues. With the exception of the low-grade foreign issues and certain convertible bonds, the action of which was governed by stock prices, all groups of bonds followed the downward trend.

As the chart clearly indicates, the greatest declines in the bond market in 1928 were registered by the railroad bonds, and particularly by the high-grade issues. As a matter of fact, the bonds which showed the greatest weakness were the highest grade legal rails, which have always represented the cream of domestic corporation securities. The average decline in these legal rails (that is, those rated A1+), it will be noticed, was approximately 5½ points, whereas all rails carrying the A1+ rating (including the legal issues) declined only about 4¾ points. It will be of interest, too, to know that the average yield of legal rails rated A1+ increased from 4.11 per cent to 4.45 per cent or 0.34 per cent, while all rails rated A1+, including legals, rose from 4.22 per cent to 4.51 per cent, or only 0.29 per cent.

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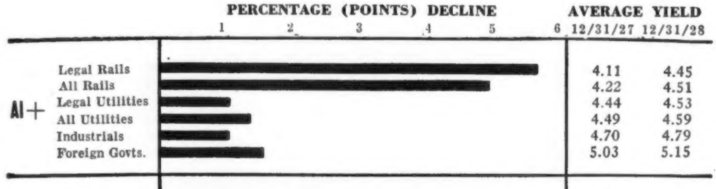
AVERAGE PRICE DECLINES OF REPRESENTATIVE BOND GROUPS OVER THE YEAR 1928



Aside from railroad bonds rated A1+, the greatest decline again was in legal rails, this time in those rated A1. Here the decline was 4¾ points, and the yield rose from 4.35 per cent to 4.61 per cent. As was the case with railroad bonds rated A1+, the next largest decline in A1 bonds was in the non-legal rails, and represented a loss of approximately 4 points. The yield on this class of securities rose from 4.42 per cent to 4.66 per cent, a difference of 0.24 per cent.

In the A classification, the greatest decline again was in the rails, amounting to almost 3 points, and the same may be said for bonds rated B1+, except that in this case the decline was somewhat greater than that for the railroad bonds rated A.

It has already been pointed out that railroad bonds bore the brunt of the loss in bond prices. Following these were the public utilities, which showed an average loss for all groups of approximately 1½ points. In the case of the utilities, however, the legal bonds did not show as great a loss as did all public utilities, principally because of the fact that within the last two years public utility bonds have become legal for savings bank investment in New York, New Jersey, and Massachusetts, which has resulted in a demand for this class of securities resulting in a tendency to steady their prices in the face of a declining market. Therefore we find that all utilities rated A1+ and A1

(*Continued on page 821*)

Rationalizing Interest Rates

By HENRY WILTON

Behavior of Money Market Challenges Some Economic Theories. Record Breaking Security Issues and Good Business Activity Despite High Interest Rates Not in Line With Expectations. New Normal Levels of Money Prices Seen. Effects on Future.

Up a Peg

TRANSCENDING all other questions of interest to the banker is the trend of interest rates. No effort is made here to forecast the probable price of money over any future period, but it is suggested that interest rates have moved up a peg to a new normal level which puts before those who deal in money and credit the possibility of making the necessary adjustments to establish themselves on a new plateau, instead of waiting for rates to drop where they used to be.

MONEY is seeking a new level. The price of money, interest rates, is going through an adjustment just as have the prices of other commodities. Money rates like all other prices are responding to changed conditions, with the difference that while new price levels for purchasable commodities have been well recognized, the possibilities of alterations in the basic lines of interest rates are just beginning to be suspected.

Unmistakable evidences point to a shift, an upward adjustment of money rates. Continuance of present-day high-geared business activity, the preservation of the happy state of prosperity, increasing earnings, growing incomes are all predicated upon new prices for money. The alternative is depression.

Many things have contributed to the evolution of money rates and the spectacular nature of these very things have helped to obscure the basic changes in the money situation. Unprecedented activity in the stock market, sky-rocketing call money rates and contraction of Federal Reserve credit have emphasized "high" rates and have produced endless speculation over the "abnormal" price of money. There has been a tendency to lose sight of the fact that all things are comparative, even high money rates.

Business Undisturbed

THE record of the past year is dotted with dire predictions of clouds on the business horizon, based in large measure upon the "abnormal" money rates. Yet at the turn of the year even the most conservative of the economic prognosticators could see nothing seriously alarming ahead for 1929. The price of money has continued to be "abnormal" but business has refused to be disturbed.

It takes a long time to shake a shibboleth. The economists, the advisers of banking and business and many whose stock in trade is money—or rather its evidence, credit—have placed their reliance upon the old saying that "everything that goes up must come down." Events would seem to prove that the old saying has been applied to the money situation too literally. The downward journey may not be as long as the upward trip. An arrow shot from the valley may come to rest upon a hill.

Money rates have been "abnormal" at times. Witness 15 per cent call money in New York. Consider the recurrence of rates that but a few years ago would have been panic rates. But when the peak prices for money have been scaled down and rates have been maintained at something like constant levels, are these still "abnormal" rates or is there a new "normal"—a new norm as the economists call it—a new price level for money?

Things Have Happened

EVERYTHING points in that direction. Application of the old fashioned rules of common sense would dictate the belief in a new normal level of interest rates as compared with a few years ago. Not so long ago—in the summer—the normal rate for call money was 3 per cent and cheaper. Even with the use of the most complicated economic factors a return to that basis can scarcely be demonstrated as a practical possibility. That was "cheap" money. Money can be cheap at 4, 5 or 6 per cent if there is a margin of earning capacity corresponding to the profits to be made from 3 per cent money.

Prosperity such as this country is enjoying has been built up upon a different price level for credit than obtained in the days of 3 per cent call money. Apparently the normal rate has moved up.

Even some of the economists are beginning to speculate upon the possibility that money has found a new level; that the price of money has risen as have the prices of other commodities. Things have been happening that have challenged the validity of some of the most cherished principles of the science of economics. In fact, the impossible must have happened unless there is a new normal rate for money.

Contrary to Theory

DURING the year 1928 there was a total of nearly $10,000,000,000 of new capital issues floated in the American market. According to the compilation of *The Commercial and Financial Chronicle* the unprecedented total of security emissions for the calendar year 1927 of $9,918,000,000 was surpassed in 1928 with a total figure of $9,927,000,000.

Thus there has coincided a period of record-breaking security issues with a period of the highest interest rates in a decade.

This is entirely contrary to what has been very generally accepted as a theory of money rates. It would have been considered an economic impossibility not so long ago. Low rates are supposed to encourage borrowing, to produce security issues and the results are supposed to be good business conditions. High rates have been regarded as inimical to business by the resultant depression of financing.

Lessens the Spread

THE past year saw consistently improving business conditions hand-in-hand with advancing rates of interest in sharp contrast to the falling off in business that occurred in 1927 when the price of money was forced down by drastic reductions in the rediscount rates of the Federal Reserve System. High rates and hard times are not inseparable.

On the authority of past experiences, periods of "abnormally" high interest rates have always been followed by sharp recessions in security prices and a consequent falling off in general business activity. This economic principle can be accepted without fear in the present circumstances if the existence of a new "normal" rate for money is also

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EDITORIAL

The Circulation Privilege

SECRETARY MELLON has announced that he will not recommend to Congress the discontinuance of national bank notes, and in harmony with that announcement the Treasury Department has made plans for the issuance of new national bank currency in a size to conform with the other items in our list of paper currency.

Apparently the Secretary's decision gives general satisfaction. National banks, having had the privilege since 1863, were loth to give it up, for national bank notes carry with them a valuable prestige. They build confidence and good will and to take away that privilege would have been to cut almost the only tie that binds some banks to the national system. With the circulation privilege removed it would have been easy for those national banks to consider anew the advantages of conversion into state banks.

We believe that any advantage accruing from the elimination of one item of our currency is more than offset by the present and potential advantages entailed in the retention of the national bank notes.

Every element which will add to the membership of the Federal Reserve System should be conserved. Every consideration, within reason and banking ethics, which will keep intact and vigorous a system brought into being to serve a great need and which has served it for two generations, may well be accorded to those units which make up that national banking system.

A Contrast in Stock Exchanges

UNUSUAL events affecting many people and great properties sometimes make dramatic contrasts. In the financial news of the end of the month there is to be found such a contrast.

The Governors of the New York Stock Exchange asked the members to approve an increase in membership from 1100 to 1375 members.

While the Governors of the New York Stock Exchange were working out plans for increasing the membership and thus creating an even greater market than the present establishment, Dictator Mussolini was moving to regulate all the stock exchanges in Italy, not that they might have greater freedom and more facilities but that they may labor under greater restrictions.

The Italian plan is to prohibit short selling and to require the submission of all transactions with names of the participants daily to government inspectors.

"It would be difficult," says the *Wall Street Journal*, "to imagine a more complete piece of financial suicide. * * * Mr. Mussolini's adventure will be brief but highly instructive. He will find himself compelled within a comparatively short time to remove his restriction. It will take him years to restore the free market he is throwing away and it will cost Italy's financial center uncounted millions."

The influence of the Duce's experiment on the prosperity of Italy will be well worth watching. In this, as in many other acts Mussolini is undismayed by precedent and boldly inaugurates a reform he believes will be for the betterment of his country.

The Problem of Farm Credit

THE farm problem has frequently been summed up in the curt phrase "too much profit." Many farmers agree with this diagnosis of the difficulties of the general situation. Many do not.

More persons are, however, coming to believe that the farmer's access to credit has been too easy. One angle of this development is brought out by the Department of Agriculture in a recent study of the farm real estate situation. The Department found that in farm mortgage credit the tendency is to hew appraisals a little closer to the line, to tie up the earning power basis a bit more, to check up on the moral risk more carefully, to give the personal qualities of the applicant greater weight, and to subject his financial status and the load of overhead already being carried to more careful scrutiny.

"The tendency toward greater credit conservatism," says the Department of Agriculture, "as it affects farm real estate represents a corrective process of which the longer time results will no doubt be for the better."

This tendency is becoming increasingly evident in all lines of farm credit where credit is extended on a business basis as a profit-paying proposition. No sound business concern lacks credit, be it manufacturing or farming. Yet nothing could demonstrate more clearly the tendency observed by the Department of Agriculture than the difference between the viewpoint of those who lend to farmers on a business basis and those to whom farm credit is a political exigency.

More government credit machinery is proposed for agriculture. A revolving fund would be an essential part of the latest plan for farm relief. A special session of Congress to draft the panacea seems inevitable.

More loans as a last resort to insure farm stability are still talked of despite the obvious impotency of the additional credit arrangements perfected in the past to provide sure-fire profits for farming.

There is the Federal Farm Loan System with its Federal land banks and joint-stock land banks, to which, shortly after the war, was added the intermediate credit banks. There was the War Finance Corporation, revived after the war to function until the intermediate credit banks could get started. Virtually a part of this system are the cooperative marketing associations which operate as distributors of Federal credit, and there is the "dirt-farmer" representation on the Federal Reserve Board, created in response to the demands of agriculture.

And now there is proposed another credit cure-all. An economic program is declared to be necessary. Stripped down to fundamentals the plan before

Congress reveals itself as the old familiar expedient—more credit.

The Two Fuels

PRESIDENT Craig B. Hazlewood, of the American Bankers Association, in the December JOURNAL brought home to the bankers of the country their interest in the national oil supply and urged the industry to take steps to better the conditions brought about by unlimited production.

In this issue of the JOURNAL, Senator Charles W. Waterman, of Colorado, the former legal advisor of the Federal Oil Conservation Board, of which President-elect Hoover was a member, submits his views of the chief obstacles to cooperative efforts within the industry against unrestrained draining of the nation's petroleum resources. He finds that the Federal Government is not without blame in the scramble to bring oil to the surface. Incidentally, he shows a kinship between oil and coal that goes back of the present day competition between these two fuels.

Neither the oil industry nor the coal industry are in the best of positions from the viewpoint of the banker. Usually the more troubles there are confronting an industry, the more the bankers are compelled to concern themselves with its problems and their solution.

Oil is a national economic problem. So is coal. Each has become a banking problem. It may be that the secret of the solution of the petroleum question lies in future policies of the Government with respect to oil lands within its jurisdiction. In any event, a solution is in the banker's interest and the solution will come quicker if his interest is based on a complete understanding of the many ramifications of the subject.

Doubles and Triples

EVERYBODY remembers what happened soon after the World War. The bottom fell out of business. But not everyone realizes fully just how great has been the recovery from the hectic days of 1920 and 1921. Prosperity followed upon depression but it has been almost as popular of late to view prosperity with alarm as it has been to point to it with pride.

Caution is an admirable trait essential to the make-up of a banker, but it can be carried to the extreme of discounting all that is favorable because it is favorable and believing that truth is only in bad news.

Prosperity is a force. It has a momentum. Super-caution, amounting to timidity, can create a drag upon this momentum eventually slowing down the force which is prosperity.

Reliable statistics disclose a well nigh unbelievable advance in industry since the troublesome times of 1921. Pig iron production has more than doubled; steel production has more than doubled; iron and steel manufactures have more than doubled; copper production has more than tripled; manufacture of non-ferrous metals has nearly tripled; gasoline production has nearly tripled; automobile production has more than doubled; building contracts awarded have more than doubled; aircraft production has more than doubled; kilowatt hours of electric power generated have nearly doubled; and the production of rubber products has nearly doubled.

These are fundamentals. They represent building at the base. They are beginnings, not endings. In the climb back from the depths of depression basic industries have doubled and tripled their volumes of activity. Such are the factors upon which to determine the degree of caution called for in the business outlook.

A Passing Precedent

SEEN through British eyes, a revolutionary change in policy has been made by the Bank of England. A new form of weekly statement has been adopted which actually furnishes some idea of the condition of the Bank.

How drastic a step has been taken, in the London viewpoint, may be realized from the comment of the Monthly Review of the Midland Bank, which says:

"The Old Lady of Threadneedle Street has never been a talkative dame. It has always been extremely difficult to draw her into conversation. She has followed the principle of never speaking unless spoken to, and even then in the fewest possible words. The new Bank return therefore represents a definite departure from previous policy. The Old Lady is telling us a little more of her business, and we are grateful for this broad-minded concession to the growing insistent demand for fuller information on matters of vital public importance."

Seen through American eyes, the new form is pitifully inadequate. Compared to the weekly reports of the Federal Reserve System it is but a scrap of information. Yet the new return of the Bank of England represents the first change in form since 1878.

It represents more than that. It marks the passing of a precedent, the precedent of secrecy.

In this country there is a small group who believe that the Federal Reserve System should follow the policy of the Bank of England and tell little or nothing about itself unless it wants to. Now the Old Lady of Threadneedle Street is forsaking them. She is beginning to adopt American ways.

Must Be On Its Guard

AN ingenious chap was that ancient emperor who made laws and posted them so high, and in such small lettering that they could not be read, all done with the evident intent and purpose of being able to inflict drastic penalties for breaking these laws.

It was an intolerable condition and of course the innocent suffered, though perhaps there may have been extenuating circumstances not fully and clearly set forth in the histories.

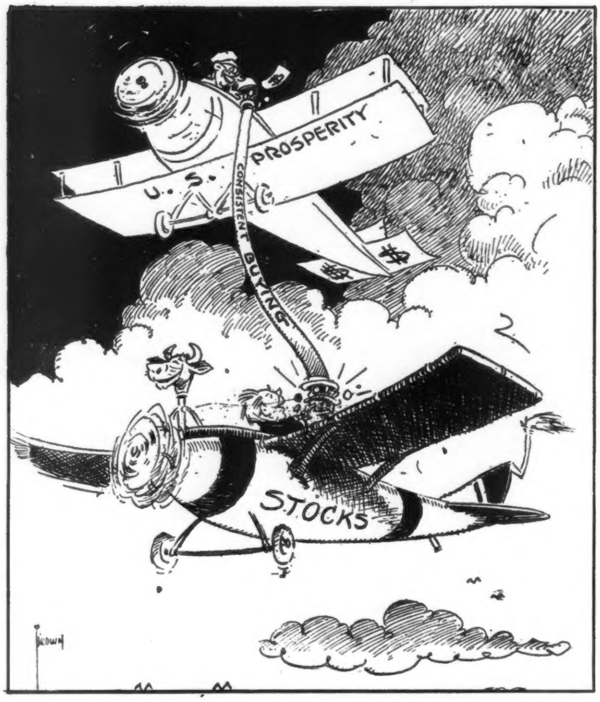
We are reminded of this ancient emperor by a situation recently revealed at Washington from which it appears (as explained by General Counsel Paton in the first article in this issue of the JOURNAL) that any bank is liable to a severe loss at the hands of the government, no matter what precautions the bank may take to obey the law and protect itself.

An official legal opinion rendered in Washington holds that a notice of an income tax lien "duly recorded and filed" operates as a lien on the bank deposits of the taxpayer without special notice to the bank.

If, therefore, in the ordinary course of business a bank allows a customer who is in arrears with the government or in dispute with its collectors, to check against his own account the bank may be held responsible.

The bank must find out for itself whether or not the government has a lien against the deposits of any of its customers, an extremely difficult thing to do, however farseeing and vigilant the bank may be.

As Cartoonists View Events of the Day



Nothing Like Refueling to Keep Them Up.—Brown in the N. Y. Herald Tribune

Helpin' Uncle Herbert.—Orr in the Chicago Tribune

That Medical Examination.—Brown in the N. Y. Herald Tribune

Here's Hoping!—Brown in the N. Y. Herald Tribune

Germany's Stockholders Call in the Bankers

By EMMETT HARRIS

Banking Principles Applied to German Reparations Question. Commercializing War Indemnities Means Replacing Government Debtors with Individual Investors. American Stake in Paris Conference Huge. German Loans and War Debts Both Involved.

THE greatest stockholders' meeting in the history of the world is to be held in Paris when the international delegates assemble there for the reconsideration of German reparations. Cloaked in politics, wrapped in diplomacy, complicated by national aspirations, the reparations question nevertheless has resolved itself into a situation commonplace in business life. It has reached the point at which the bankers are called in.

Complex conditions encompass the final adjustment of war indemnities which is to be attempted. Yet stripped to its bare fundamentals the problem becomes the same which confronts the stockholders of a business concern whose future is uncertain and which may need the help of the banks to put it on its feet. Nations that expect returns from Germany are in the position of stockholders who want dividends.

Reparations, in the main, are the dividends sought. The United States receives no reparations from Germany. But this country has an investment in Germany comparable to the war losses which other nations seek to recoup through indemnity. The United States is a large stockholder in the future of Germany. American delegates to the Paris conference will not be representatives of the government of the United States but they will be the representatives of the great group of American stockholders. And these American stockholders are investors who put their money in the enterprise when its market position, so to speak, was at the bottom.

Progress Due to Dollars

AMERICAN capital has proved the savior of German industry and such stability and progress as the country enjoys today is largely due to the flow of American dollars into German coffers during the past four years. From the beginning of 1925 to the end of 1928 Germany has borrowed abroad approximately $1,600,000,000, three-fifths of which, or $900,000,000, was furnished by this country. This is over and above the Dawes loan of 1924 ($228,672,000) which is being paid out of the reparations annuity and has no direct bearing on the restoration of economic life.

Advice Needed

BY casting off the trappings of international politics and the verbiage of world economics it is possible to resolve the reparations problem into the terms of everyday banking. Except for the vast sums involved the forthcoming conference of experts in Paris, as Mr. Harris sees it, will be just like the meeting of the stockholders of any corporation which needs financial advice in order to pay its debts and at the same time keep the business going.

In addition to these obligations, about $1,000,000,000 worth of internal German securities have been sold abroad during this interval. While there is no question but what the foreign exchange provided by the sale of these securities has enabled Germany to meet reparation transfers in cash of something over $400,000,000 during this period, the continued ability to do so since reparation payments (including deliveries in kind—$154,000,000 in 1927-28—and occupation costs $15,000,000) reached a total of $600,000,000 after Sept. 1, 1928, is the problem which is engaging the attention of the world today.

Variable Resources

GERMANY'S foreign trade offers no hope of a solution. In the past four years it has shown a total excess of imports of $1,481,000,000 and exchange for the purchase of needed raw materials for German industry has obviously been provided through the medium of foreign loans. Other sources of German income from abroad are equally sterile when considered from the point of view of providing revenue or even exchange from which this increased burden may be met.

The two principal items appearing on the credit side of the ledger represent $1,151,000,000 derived from the sale of internal securities abroad over the four-year period and $284,000,000 shipping services, etc. Other items showing to the credit of the nation on Germany's international balance sheet during the past four years have been "Return of foreign currencies hoarded in Germany" and "Movement of short-term funds to Germany." Together they have totaled $420,000,000 in four years.

The first of these items has ceased to figure in the calculations of the last two years, all of the foreign currencies obviously having left Germany by 1926. The latter has proved a variable item, fluctuating with Germany's need of short-term capital as indicated by the rise and fall of interest rates. Summarized, therefore, the German financial problem is how to provide sufficient credit abroad to pay reparations and interest on foreign loans without curtailing the volume of new borrowings so obviously required to finance the purchases of needed raw materials for industry.

Like an Ordinary Loan

EVEN if Germany should continue as in the past four years to meet foreign obligations by foreign borrowing, such a process could obviously not continue indefinitely. On present foreign currency obligations alone the annual interest and amortization payable abroad, calculated roughly at 7 per cent and 3 per cent, amounts to about $120,000,000 and if this should be augmented by annual new borrowings sufficient to take care of Germany's purchases of raw materials abroad $500,000,000 each year would be added to Germany's foreign debt, carrying with it as interest and amortization an annual increment of $50,000,000 to the sum for which transfer funds would have to be provided.

This situation, perhaps, more than

(*Continued on page* 802)

The Third Security Market

By HENRY E. SARGENT

Public Trading in Unlisted Securities Tried as Experiment. Market for Over-the-Counter Securities Started by New York Produce Exchange. Expected to Halt Vast Sales of Worthless Issues Costing Investors One Billion Dollars Since the War.

SOMETHING unique has entered the investment field. Paradoxes notwithstanding, it is now possible to list "unlisted securities" and to buy and sell "over-the-counter" securities upon the floor of an exchange.

These facilities are being furnished by New York's new third securities market, which has been set up by the New York Produce Exchange. Trading began on Dec. 19, 1928, on the new exchange, which is an experiment potent with possibilities for revolutionizing long-established practices in the marketing of investment securities.

Over-the-counter sales have been the generally accepted method of distributing securities not listed upon the stock exchange nor upon the curb market in New York, except in cases where listings on local exchanges have taken care of certain types of securities. But for securities with a broad investment market, over-the-counter sales in New York have set the prices in a manner comparable to quotations for securities listed upon the stock exchange or curb market.

Selected Securities

OPERATIONS in the security division of the New York Produce Exchange are contradictions of all that has been recognized as essentially over-the-counter transactions, and yet the new market has been formed to trade chiefly in what have come to be considered as over-the-counter securities. Sales are made by offer and acceptance on the floor of the exchange, tickers report the prices of sales, bid and asked prices are quoted, and transactions are limited to securities listed by the new exchange.

Trading started with a list of some 133 industrial and miscellaneous stocks comprising public utilities, oils, industrials, and credit companies, none of which is listed on the New York Stock Exchange or the New York Curb Market. They were selected from over-the-counter securities, and in some instances from Canadian and minor American exchanges. There were also forty-eight banks and thirty-three insurance stocks and thirty-six coupon bonds listed.

Blind-folded Buying

TIME will test the new market. If it succeeds in firmly establishing itself, it will grow. More securities will be listed. To the extent that it expands, over-the-counter sales will contract, over-the-counter dealers will become market traders, over-the-counter prices will become market prices, and bankers, brokers, and investors will have a new list of quotations to watch.

These are fairly obvious possibilities

The New York Produce Exchange which houses the third security market

of changes that may take place in security dealings from the operation of the third exchange. New York prices for stocks or bonds are national prices. Market prices are public prices. Yet it was not pressure for new methods among reputable dealers in unlisted securities that produced the experiment of the third security market. It was the drive of New York State authorities against over-the-counter sales of worthless securities that gave rise to the organization of the security division of the New York Produce Exchange.

Blindfolded buying can be expensive. Assistant Attorney-General Timothy J. Shea, of New York, estimates that securities in excess of $1,000,000,000 sold over the counter to the public since the war have defaulted or become worthless. That is at the rate of something like $100,000,000 a year.

A few years ago it was the bucket-shop that took toll of the unwary. Pickings have not been so good in that game of late. Unprecedented activity in the stock market has at least educated the speculative element of the country in the mechanics of stock trading. But there is always the urge to get in "on the ground floor." Fortunes have been made in curb stocks. Rich profits have been made in securities bought over the counter for the longer pull than the "long pull" of the markets.

Always there have been prowlers on the fringes of finance. They operated the bucket-shops of another era in competition with reputable brokers. For years reputable firms have sold unlisted securities over the counter. Into their field has crept the counterpart of the bucket-shop keeper, taking advantage of widespread interest in stocks and bonds to unload worthless securities in what has been regarded as the strictly investment field.

In a statement on the progress of the investigation made by the New York authorities into over-the-counter transactions, Mr. Shea reported last summer that the inquiry had revealed a startling indulgence in viscious practices by some professing to serve the public in the confidential capacity of broker.

Made to Order

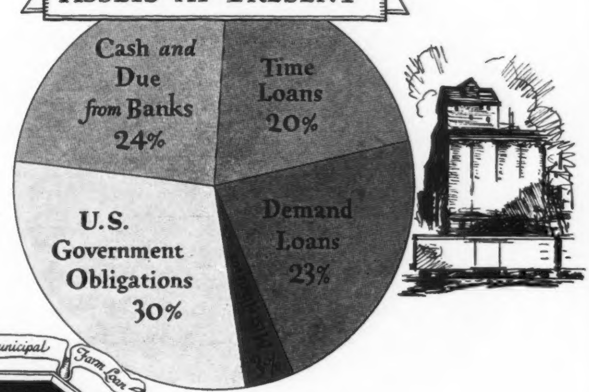
"THE record," he said, "of defaults and failures among concerns whose securities were floated through over-the-counter market houses has convinced me and my advisers that more open-and-above-board methods of promotion must be followed by the houses dealing in this class of securities. Then, too, the fact that much dishonesty exists in the publication of quotations, many of them downright fictitious, leads me to believe that a standard system for making these public must be devised. The public seems to demand this. If we accept the proposition that exchanges are justified and necessary, and serve a useful purpose, we feel that the vast volume of over-the-counter transactions should in some manner be recorded with the attendant benefit that publicity given to quotation entails. Despite the decency of a fairly large number of over-the-counter brokers and the unquestioned worth of hundreds of offerings in that market, I am convinced that the present situation is made to order for unscrupulous insiders to push worthless goods and literally trim the public."

The Unlisted Security Dealers' Asso-

(*Continued on page* 831)

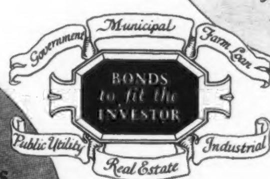
BONDS—*for bank income*

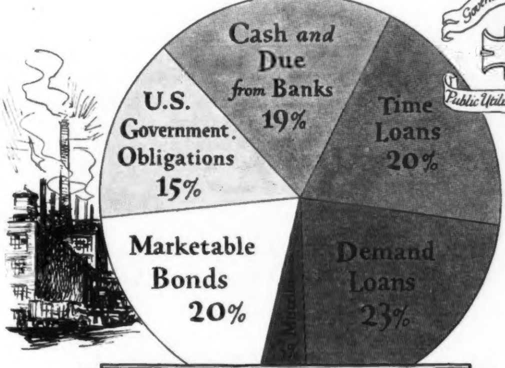
ASSETS AT PRESENT



COMPARE these charts. The one at the right is based upon the statement of a national bank located in a thriving industrial and commercial city of the Middle West. So ultra-conservative has been the policy of this institution in the past that all generally accepted legal and primary reserve ratios have been exceeded by large margins.

There has, in consequence, been a considerable amount of unused earning power.





ASSETS REDISTRIBUTED

A SUGGESTED redistribution of this bank's assets is indicated in the above chart. U. S. Government Bond holdings are reduced from 30% to 15%. Cash and Due from Banks, has been reduced from 24% to 19%. This makes funds available for a well-designed and highly conservative Secondary Reserve Bond Account. Assuming that the average yield from the bonds selected is only 5%, the added earnings in this case amount to well over $35,000 annually. And still the position of the bank remains highly conservative.

The Problem of your bank

To what extent should your bank hold bonds? . . . What type of bonds should you favor—public utility, industrial, corporate real estate, railroad, foreign, or municipal? . . . Are long term or short term issues logical for you? . . . Should yield be emphasized instead of liquidity, or the contrary? . . . What percentage should go to make up a revolving fund.

THERE is no yardstick—no formula—for all banks alike. It all depends upon your individual needs. These can be determined by capable analysis. Once your requirements have been determined by this means, every question can be answered with confidence. Our experience in designing bond reserve accounts for banks is at your disposal. Details will gladly be supplied on request.

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Investing Trust Funds

By KINGSLEY KUNHARDT
Investment Trust Officer, Guaranty Trust Company of New York

Diversification Fundamental Principle of Trust Investment. Applies to Maturities As Well as to Securities. Individual Conditions Frequently Determine Between Long or Short Term Issues. New Type of Trust Involves Fractional Distributions.

WHEN a trust is opened, our first interest is in the investment provisions—interpreted with the advice of counsel on any doubtful points, for there is frequently a surprising difference between what a layman thinks a legal document means and what the courts will hold it to mean. In studying the investment provisions we must, of course, note not only in what type of securities the trustee may invest, but on what authority—whether we must consult some designated individual, such as the grantor or a co-trustee, and if so, whether we are relieved of responsibility in following his instructions, or must agree on some mutually satisfactory course.

In cases where the individual has sole authority he sometimes directs the account so actively as to make the corporate trustee little more than a depositary, but where there is a joint responsibility my experience has been that most persons look to the trust company to take the initiative.

Whether or not there is an interested party to be consulted the investment officer should cooperate with those of his associates who come into personal contact with all of the affairs of the trusts and are familiar with the circumstances and desires of the beneficiaries. He does not require the administrative officer's advice—and may be better off without it—when the security of an investment is involved, but with business conditions as they are today, comparatively few changes of investments in trust accounts are occasioned by fear for the ultimate security of the issues owned. Most of the changes are made to replace bonds that have matured or have been called, to increase income—through purchase of higher yielding securities, or of bonds whose tax position is better adapted to the circumstances of the life tenant—to switch from long to short-term bonds, or to purchase additional issues as the "legal" list is expanded.

Tax-Free Issues

IN all of these instances the help and advice of the administrative officers is practically a necessity. What is the use of increasing a woman's income a few dollars if she prefers to have her securities undisturbed? Why buy long-term bonds if the account is to terminate on the death of a life tenant whom the administrative department knows to be desperately ill? Such situations, unsuspected by the investment man, may be common knowledge to those who are in close contact with the life tenants through payments of income or preparation of tax returns.

The tax position of the life tenant in connection with Federal, state, and possibly foreign taxes, should be constantly in the mind of those reviewing the trust securities. For instance, one of my friends recently asked my advice upon the tax status of a trust for his sister, who had married an Englishman and was living on the Continent. The trustee had originally known her as an American citizen, and the account was largely invested in American municipal bonds. On first consideration it seemed advisable to exchange these for the British tax-free issues, but after further study it appeared that, not being a resident of Great Britain, the lady was not subject to British taxes, so that the low yielding sterling investment was not attractive. As an alien living outside the United States she would be exempt from our taxes if her income were derived from foreign dollar bonds. Her trust now has been invested in such bonds, so that she receives a much larger income free from taxes.

Purchasing in Blocks

AS a general rule, trusts terminate when someone dies, a date which cannot be predetermined. Guardianships, however, ordinarily mature when the ward becomes of age, and bonds should usually be purchased which will be due about that time, as the boy or girl who receives the money may desire to invest it in other ways.

Still another type of account that is becoming popular deserves comment, as a suitable investment policy will save a great deal of trouble. These are the trusts whose terms provide for the beneficiary receiving certain portions of the principal on certain fixed dates. We are handling one such account created for three children. As each one becomes twenty-one he gets one-ninth of the principal; when he reaches twenty-five a second ninth, and when he is thirty the final ninth, completing his one-third share of the estate.

As the trust is a large one, the difficulties of making such divisions are manifest. We, therefore, adopted the policy of purchasing securities in blocks divisible by nine, so that when the first date arrives we shall deliver out one-ninth of each block, leaving the balance undisturbed. Until the second date any further purchases will be made in blocks divisible by eight, and so on till the last share is delivered. Furthermore, the share delivered on each date is to include enough short-term issues to supply any possible cash requirements of the beneficiaries.

Diversifying Maturities

KNOWING the purpose and terms of the trust, its probable duration, and the circumstances of the life tenants, you are ready to consider the securities individually. The most important principle of trust investment, or, for that matter, any true investment program, is providing proper diversification, which means more than simply buying issues of a number of different companies.

It is necessary to watch industrial and geographical diversification, for it is common to receive from an estate investments that, while perhaps in different companies, all represent one industry or a group of related industries. I remember one list of more than one hundred bonds, nearly half of which proved upon investigation to be direct and indirect obligations of just two eastern railroad systems. You will need diversification of maturities, for it may be a hardship on your life tenant if all the bonds held by a trust come due at a time when reinvestments paying a satisfactory income are hard to find. For the same reason, avoid having a large proportion of the trust in securities that are likely to be called at about the same time.

You will probably find it advisable not to place more than 10 per cent of the principal of a trust in any bond issue. If you purchase preferred stocks, you may decide to put not more than 30 per cent of the trust in stocks, and perhaps 5 per cent in any one stock. In large trusts the blocks will probably be smaller in proportion.

In purchasing bonds, your opinion of the bond market will influence the selection of long or short-term issues, but as there is always the possibility that your opinion may be incorrect, there should

(*Continued on page* 811)

Small Favors Build Big Banks

By W. R. MOREHOUSE
Vice-President Security Trust and Savings Bank, Los Angeles

Little Things That Produce Unexpected Business in Banking. Savings Accounts Won With a Smile. The Cheerful Side of the Service Charge. A Nuisance that Paid for Itself. A Dentist Who Appreciated a Friendly Atmosphere and Promptly Said So.

IN my collections of stories written by bankers describing their actual experiences with the powerful force of courtesy as a business builder, one stands out which begins with a "home-made" definition of service.

"It is assistance rendered to another in an honest desire to be helpful," says this banker author.

Following this definition he tells a remarkable story of how a small service was the means of securing a large account. One day a woman customer came into his bank and deposited the proceeds from the sale of securities amounting to $102,000.

"My husband wanted me to open an account with this check in the bank where he does business," was her only remark, "but I told him no, that I was going to deposit it in this bank as the boys (referring to the tellers) had been so good to me."

Every young banker on the firing line in the banks could profitably memorize the reason given by this woman for depositing $102,000 in a certain bank notwithstanding her husband had made an effort to have her deposit it in the bank where he carries his account. "The boys were good to me," she says, which means being courteous and serving her efficiently. Employees exert a greater influence over the growth of their banks than do officers, for all depositors meet the employees, while only a comparatively small percentage of customers meet a bank's officers.

Wanted to Pay for It

THIS banker concludes: "Although our tellers cannot recall serving her in any special manner, they knew her very well and had at all times endeavored to serve her to the best of their ability." Evidently in this case, it was a "good morning" or "good afternoon," or "please," or "I thank you" that had made a favorable impression on her mind.

Still another banker writes: "An elderly lady came in to see me one day about certain endorsements on a trust deed note. She was confused as to certain payments. As is customary at our bank, I took whatever time was necessary to check over the payments. The old lady was so well pleased with the attention shown her that she wanted to pay for it. When told that there was no charge she volunteered the assertion that she would not forget us. She said that an officer in another bank had intimated to her that he was already overworked trying to keep things of this kind straight for people who didn't know anything about investing. He said they ought to keep their money in the bank. When finally he agreed to look over the endorsements, she was so mad that she left.

"It wasn't long after I helped her before she opened an account for $5,000. Later she moved away, but she has never closed her account, in fact, since moving has sent us additional deposits and now she has $16,000 in her account."

Gladly Paid a Service Fee

NOT only does this case prove that it pays to treat strangers courteously but that it pays to serve them within reason. This case, like the first one cited, brings out a fact which banks cannot afford to overlook, namely, that customers are making comparisons between the service rendered by banks and are switching their accounts from banks where the service is indifferent to banks where the service is adequately and cheerfully rendered. It also shows that you can not serve people grudgingly and retain their good will. There is only one successful way, namely, if you are going to render a service do so gladly and with a smile. For you to assume any other attitude is to defeat the very purpose for which small favors are granted, namely, to win the good will of those served.

Strange as it may seem to many bankers, here is the case of a woman depositor who not only gladly paid a monthly service fee of fifty cents on her small checking account, but so appreciated the fact that the bank would be bothered with her small account that she felt under obligations to the bank.

Although this banker did not state so, because of his modesty, I read between the lines of his letter that this woman felt that she was receiving more than her money's worth in efficient service and courteous treatment. Doubtless she was so well pleased with the courteous attention shown her that she felt she was getting a big bargain for the small service fee of fifty cents a month. Perhaps this case brings to light a new angle on the service charge, and how to make depositors like it. At least it demonstrates that it is possible for a bank to serve its depositors so efficiently that even those who pay a monthly service fee will feel that they are still getting the best of the deal.

Had Been a Nuisance

SEVERAL years ago, another banker relates, a lady by the name of Mrs. C. R. Compton opened a small checking account against which was levied the customary monthly service charge. As was the rule, the bank endeavored not to discriminate between customers, but to serve all of them to the best of its ability, and naturally this woman was shown every courtesy and attention.

One day she came in to see the banker and remarked that she appreciated the fact that her account had never been a profitable one to the bank, and that it was kind of the bank to handle it all.

"I have just received this check for $10,000," she said, laying it down on the counter and proceeding to endorse it. "My husband tried to get me to deposit it in his bank, but I told him this was my bank, and anyway, I felt that I have been kind of a nuisance here for a long time, and so I wanted to square myself for the fine treatment I have received. Put this in a savings account."

Several years have passed since that money was deposited, and she still maintains the same savings account of $10,000 and also her small checking account on which she is still paying a small service fee of fifty cents a month.

Won the Mother First

AN entirely different type of case from those mentioned comes to light. It shows how business is obtained by indirect channels. In this case a bank made a good impression on a large utility corporation by extending a number of small favors to the mother of one of its principal officers.

"You can't always tell where the chips are going to fall," the banker writes. "We have the principal account of a large utility corporation for no other reason than because for several years we have shown a certain elderly woman every reasonable consideration and attention. She is the mother of one of the principal officers in that corporation, and credit belongs to her for swinging that account to us. Perhaps I shouldn't

(*Continued on page 794*)

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India's Struggle with Silver

By GEORGE E. ANDERSON

New Currency Program of India Likened to Sword of Damocles. Constant Threat of Silver Sales Hanging Over World Markets. Indian Government Carrying Out Reform Policies Legislature Rejected. Move Means Drag on Gold Reserves Here and Abroad.

FOR centuries the East has preserved its affections for both of the two great precious metals, clinging steadfastly to silver while the Western world has turned more and more to gold alone as the basis for currencies and the standard of value. Gradually the gold standard is being extended over the East, and India, where the sway of silver has been supreme, is slowly turning from the white metal.

So fundamental a change as one affecting currency, especially the currency of an Oriental peoples, cannot escape the accompaniments of difficulties and delays. Nor can the silver program of India avoid reprecussions, already felt by the world at large and particularly by the gold stock and the silver mines of the United States.

On August 20, 1925, the government of India established a Royal Commission of ten members "to examine and report on the Indian exchange and currency system and practice, to consider whether any modifications are desirable in the interest of India, and to make recommendations." The appointment of this Commission was the result of considerable agitation in India for the establishment of a gold standard for India's currency either in the way of actual gold circulation supported by an Indian mint for the coinage of the yellow metal, as advocated by a majority of the native members of the Indian Legislative Assembly, or by reestablishing a gold parity for India's silver currency with certain modifications to economize the use of gold and for creating a reasonably effective check upon the free import and export of the metal as advocated by most of the Empire's financial experts.

The Commission considered its problem for almost a year, taking testimony in Calcutta, Bombay and Delhi and later in London. On Aug. 27, 1926, it promulgated its report and recommendations and it was realized at the time that if these recommendations were adopted they would have an immediate and profound influence upon the gold and silver stocks of the world, upon the free movement of gold and silver in trade, upon the gold and silver mining industries, upon international trade and industry generally and upon all international banking affairs, particularly in the Far East. The chief recommendations of the Commission included:

The Most Unwelcome

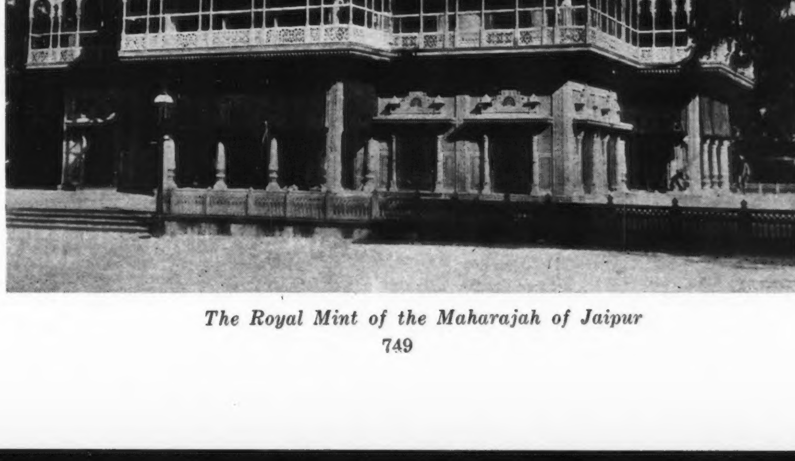
CHANGES in the currency system of India would seem far removed from conditions affecting the business situation in the United States were it not that a reduction in the demand for silver reacts upon the mines of this country and a correspondingly greater need for gold exerts pressure upon American stocks. And above all there is about the Indian silver situation that most unwelcome of intruders into any situation of business or finance—uncertainty.

Provisions that the ordinary monetary circulation of India should remain as heretofore the currency note and the silver rupee whose stability in terms of gold should be secured by making the currency directly convertible into gold, but that gold should not circulate as money; to effect this convertibility and at the same time check the use of gold as currency it was recommended that the silver and currency rupee should be redeemed in gold only in units of 400 ounces of gold or substantially $8,000.

That the control of the circulating medium and credits necessary to maintain its parity with gold should be turned over by the government to a central banking system to be known as the Reserve Bank which was to have the sole right of note issue for twenty-five years, its notes to be full legal tender and to be guaranteed by the government, and that the legal tender quality of the sovereign and half sovereign should be removed, the paper currency should cease to be convertible by law into silver, although the bank was to be required to maintain the free interchangeability of notes and silver. The bank was to buy and sell gold without limit at rates based upon the gold parity of the rupee without limit as to the purpose for which the gold was required, but with regulations so framed that the bank should be relieved so far as possible from the necessity of supplying gold for non-monetary purposes.

The silver reserve holdings of the government, most of which were to be transferred to the bank, were to be substantially reduced over a period of ten years.

The Reserve Bank was to be entrusted with all the remittance operations of the government, was to hold all cash balances of the government as well as the reserves of all banking institutions in India. Its establishment was to be effected largely by the transfer of a large part of the government's reserve assets and all profits, aside from limited dividends, were to accrue to the government.



The Royal Mint of the Maharajah of Jaipur

Stabilization of the rupee should be effected at once at the rate of one shilling and six pence or 36.5 American cents instead of the pre-war rate of one shilling and four pence or 32.44 American cents.

Aside from its general effect upon international trade and finance which, although highly important, affected all trading nations more or less equably, one particular effect which the establishment of the new order of things in India recommended by the Commission would have had upon the United States lay in the increased demand upon the gold stocks of the world and especially of the United States which held substantially half of the world's stock at that time. Above all was the fact that it not only would confirm and make permanent the policy of the Indian government in ceasing the coinage of silver rupees and thus stop the demand for American and other silver for coinage purposes which has been one of the strongest elements in the support of the price of silver the world over for many years, but it would also strike at the very foundations of the world silver market by reducing the present large silver reserve holdings of the Indian government or its reserve bank during the course of ten years.

Sanction Refused

IN other words, not only was one of the chief factors in the world demand for silver to be done away with, but India's immense silver hoard was to be held over the silver markets of the world until it could be disposed of and that, too, at a time when the world position of silver was regarded as very uncertain at best. Stripped of its technical limitations and checks, the proposition of the Commission was to do away with India's immense silver circulation as rapidly as possible and to establish in its place a paper currency based upon gold but convertible into gold in large amounts only; to stop, so far as was humanly possible, the hoarding of gold and silver in India and gradually to lead the native to use banks for his savings instead of locking up immense sums in unproductive metal

Ornament, one of the reasons for India's drain on the supply of precious metals

hoards by encouraging the establishment of banks for native use; and to establish the rupee currency upon a gold basis four cents or 12½ per cent higher than the rate formerly in use and to which the business of the world over many years had become more or less adjusted.

This body blow to silver was softened somewhat by the declaration of the Indian government that it had no intention of dumping its supply of silver upon the world and that it proposed to cooperate with all other agencies so far as possible to maintain the price of silver. Various schemes were proposed in this connection, the principal one being that the Indian government should dispose of its silver stocks by private negotiation with other governments which were at that time seeking supplies of silver in connection with the rehabilitation of their currencies in the post-war period. Nothing came of such schemes; nor was there any practical way of avoiding the issue. Only a brand new use for India's silver would relieve the situation and that was not forthcoming.

However, the Legislative Assembly of India refused to sanction all of these recommendations. As a matter of fact the only important recommendation it sanctioned was the rate of one shilling and six pence as the exchange value of the rupee. Sanction for the reserve bank was refused by two successive Legislative Assemblies and for the time being at least that portion of the scheme may be considered out of the reckoning.

The Constant Threat

NEVERTHELESS, the government of India has adopted a considerable portion of the recommendations of the Commission by executive act as its policy in the conduct of currency and exchange matters in the Empire under existing law and by so doing it has brought about most of the ill effects feared in connection with the establishment of the new system without attaining the principal and permanent ends sought—at least not as rapidly or as completely as contemplated. This has been the result particularly in its effect upon the price of silver in the markets of the world while at the same time it promises to be a considerable factor in international finance by reason of its drafts upon the world's gold stocks.

The principal effect so far as the

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The Government Building, Madras

The Trend of Banking Costs and Profits

By ANDREW MILLER
Secretary, West Coast Bancorporation

Record of the National Banks in the Middle Western States. Trends Similar to Other Sections of the Country Disclosed. Tremendous Increases in Deposits, Falling Off in Rate of Gross Revenue and Serious Decline in Net Profits Revealed.

THE eight states comprising the great central region of the United States—Ohio, Indiana, Illinois, Michigan, Wisconsin, Minnesota, Iowa, and Missouri—comprise an area which is one of the richest in the country and whose development during the past twenty years has been outstanding in the extreme. The tremendous growth of banking power in these states reflects their progress in agriculture, commerce, and especially in the production of manufactured goods that has been a conspicuous feature of these states in the last two decades.

How have banks fared in this same period? While the indispensable part of the business fabric of any community, do their own records reveal a degree of administrative skill which will measure up to the standards demanded of every department of modern business? Banks will of necessity play an important rôle in this development, and they must take inventory of past performances and present conditions and be able to keep pace with business requirements, if not actually to anticipate them.

In these eight states there were 2120 national banks doing business on June 30, 1927, the date of the latest official report of the Comptroller of the Currency. In 1908 there were 1135 national banks in the same states, a net increase of 985 banks in the twenty-year period included in this study. That fact in itself is indicative of the prosperity and growth of these states in wealth and importance. Deposits of these 1135 banks in 1908 were $1,748,467,000, and in 1927, $4,899,733,000, an increase of $3,151,266,000, or 180.2 per cent, surely a satisfying report of progress from the standpoint of volume.

An Imaginary Report

SUPPOSE we look under the surface and see how this great volume of business was handled and what the record is in terms of net results. For this purpose we will take first the banks of the eight states outside of six of the larger or representative cities, Chicago, Detroit, St. Louis, Minneapolis, Milwaukee, and Cincinnati, which will be discussed separately. These banks numbered 1086 in 1908 and 2056 in 1927. Deposits in 1908 were $1,054,467,000, and in 1927, $2,951,036,000, an increase of 179 per cent. Capital and surplus in 1908 was $228,246,000, and in 1927, $361,154,000, an increase of 58 per cent. Therefore the volume of business increased approximately 1¾ times, and the invested capital slightly more than one-half. Other conditions being equal, the net result normally would be a vastly greater return on the investment.

A briefly summarized detail of gross earnings, expenses, losses, and depreciation, and net profits presented to an imaginary composite board of directors of all the banks whose figures have been thus combined, would be somewhat as follows:

In 1908 a statement of income and expenses of our 1086 banks for the year showed: total deposits, $1,054,467,000; gross earnings, $56,847,000; expenses, $28,974,000; losses and depreciation, $7,531,000; and net profits, $20,334,000. During the twenty years that have elapsed our volume of business has developed unusually and the results for the year 1927 were: total deposits, $2,951,036,000; gross earnings, $179,405,000; expenses, $133,375,000; losses and depreciation, $19,015,000; and net profits, $27,013,000. Considered separately the increased business may be stated to have been: total deposits, $1,896,569,000 or 179 per cent; gross earnings, $122,558,000 or 215 per cent; expenses, $104,491,000 or 360 per cent; losses and depreciation, $11,484,000 or 152 per cent; and net profits, $6,679,000 or 33 per cent.

Director's question: "Do I understand correctly that our volume of deposits increased 179 per cent and our net profits only 33 per cent?"

Answer: "Yes, sir."

Question: "Is it true that gross revenues increased proportionately more than our total deposits?"

Answer: "Yes, sir, 215 per cent against 179 per cent."

Question: "The report discloses that the percentage of cost for operating this new business is more than twice the percentage of increase in volume; in other words, because of these increased expenses, actual profits have been reduced to about one-sixth of what they were on 1908 business. Is that a true statement of fact?"

Answer: "It is."

Question: "Still the return on our invested capital averages about as high as it did for the earlier year. How was that accomplished?"

Answer: "By an increase in capital proportionately smaller than the increase in deposits and more nearly commensurate with the actual gain in net profits."

Question: "Does that not lead to a more hazardous business, a lessened margin of protection to our depositors and a greater possibility of our stockholders being called upon for assessments due to the double liability attaching to national bank stock?"

Answer: "That is the case exactly, sir."

Question: "Is it wise to expand our business further on such a relative basis?"

Such a discussion may well be engaged in by the directors of banks in these states to understand the vital changes that have taken place in the banking world, and to initiate whatever drastic measures may be required to place their banks in positions beyond reproach, strengthen their capital structure, institute a greater efficiency in the conduct of their business, improve their facilities to minimize losses, and be in a position to go ahead on a basis comparable to other major lines of business.

Loss Ratio Favorable

IT is realized, of course, that present operating conditions are fundamentally different from what they were in 1908, and that costs of doing business have increased, while the rate of gross earnings has remained almost stationary. In these states, however, the expense ratio for 1927 and several preceding years was decidedly higher than for the national banks in the United States as a whole, and a reduction of at least one-half of 1 per cent, figures on the basis of deposits, should be made. As a matter of fact, gross earnings in this district have been on the average fully one-half of 1 per cent higher than the national banks at large. It is to the credit of the banks in these central states that their loss ratio has been consistently favorable. The actual net profits in terms of percentage have been on a decreasing schedule for practically the entire period.

In discussing the banks of the representative cities chosen, it is natural that

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National Bank Notes Continued

By E. E. MOUNTJOY
Secretary, National Bank Division, American Bankers Association

Decision of the Secretary of the Treasury is Gratifying to National Bankers. New Notes in Reduced Size to Be Issued Simultaneously with the Other New Currency. An Innovation in the Method of Production. Importance of Conserving Gold Supply.

THE uncertainty which shrouded the future of national bank circulation has been removed. By his recent announcement the Secretary of the Treasury voiced disapproval of the rumored policy which would retire national bank notes, and thereby he set at rest the fears that they might cease to be a part of our monetary system. By his action they are continued indefinitely.

Nation-wide interest in this question was aroused by the several statements of the Secretary of the Treasury, during the last four years, that it might be desirable to discontinue national bank notes when the United States Consols held as security for the larger part of such notes become callable. It is well known that the Consols bear no maturity date, and that they may be redeemed any time after April 1, 1930, at the pleasure of the United States. This pleasure may be exercised by the Secretary of the Treasury without the sanction of any other individual or group of individuals, and in him rests authority to continue national bank notes or to call the bonds underlying them and thus force their retirement.

It Gave Satisfaction

IN his Annual Report for 1928, issued last December, Secretary Mellon suggested that because so much time had elapsed since passage of the Federal Reserve Act, pointing a way to voluntary retirement of national bank notes, he deemed it advisable to submit the matter to Congress for decision at its present session. This focused attention anew upon the Secretary of the Treasury, and gave rise to much speculation over what his recommendation to Congress would be. Therefore, his decision not to urge retirement came as a distinct gratification. It brought satisfaction to the thousands of national banks issuing circulation, and to other students of finance who saw in the elimination of such currency economic dangers which, in contemplation, caused considerable concern.

The pertinent part of Secretary Mellon's message to Congress, under date of Jan. 22, said:

"The question has received the thorough study and consideration of this department, and I have concluded that it would be inadvisable to submit to Congress at this time a program looking to early retirement of our National Bank note circulation. Accordingly, when the new-size paper currency is issued, on or about July 1, 1929, the Treasury Department will be prepared shortly thereafter to make available National Bank notes in the reduced size."

This decision preserves an instrumentality which has been a part of our monetary system since Civil War time. National banks have been banks of issue always. The note issuing privilege prompted many groups organizing banks, especially some years ago, to ask for national charters, and they feel that the exercise of that function for so long a time, with advantage to the government as well as to themselves, gives them an extraordinarily persuasive reason for asking continuance.

No Prejudice to National Notes

THE message of the Secretary of the Treasury is gratifying also because it assures prompt production of national bank notes in the smaller size. There was apprehension that the reduction in the dimensions of all other paper money, and circulation of national bank notes in their present size, would create against the latter an illogical antagonism which would be difficult to overcome. The statement that they, too, will be available in the new proportions shortly after the first new notes of other designs make their appearance is taken to mean that all details of the entire currency revision program will be synchronized so well that it will unfold almost without interruption, and that no prejudice to national bank notes will develop.

The entire volume of bonds eligible to secure national bank notes is only $670,000,000, and $655,000,000 is so employed. The decision to refrain from redeeming the Consols when they become callable does not mean they will be reissued. Ninety-nine per cent of the Consols support circulation and, necessarily, are in registered form. Therefore, no advantage would come from the substitution of new bonds for the old. The few coupon bonds outstanding, however, call for some action. It may be that registered bonds will be offered in exchange, but as coupon bonds are not held as security for circulation, their disposition has no bearing thereupon.

New Currency Designs

IN its new size paper money will be 6 5/16 by 2 11/16 inches, and the principle of uniformity of design for each denomination will be followed as closely as possible. The backs of all notes of each denomination, irrespective of kind, will be the same. Likewise, all notes of a given denomination will bear the same portrait on their faces, though there will be other differences sufficient to indicate their kind. Black faces and green backs are prescribed for all issues, but seals and serial numbers will appear in different colors. The following table explains the different markings:

Denomination	Portrait on Face	Embellishment on Back
$1	Washington	Ornate "One"
2	Jefferson	Monticello
5	Lincoln	Lincoln Memorial
10	Hamilton	Treasury
20	Jackson	White House
50	Grant	Capitol
100	Franklin	Independence Hall
500	McKinley	Ornate "Five hundred"
1,000	Cleveland	Ornate "One thousand"
5,000	Madison	Ornate "Five thousand"
10,000	Chase	Ornate "Ten thousand"

The Treasury seals and the serial numbers will be imprinted in the following colors:

Silver certificates	Blue
United States notes	Red
Gold certificates	Yellow
Federal reserve notes	Green
National bank notes	Brown

Five kinds of paper money are issued—United States notes, silver certificates, gold certificates, Federal Reserve notes, and national bank notes. With a single portrait assigned to each denomination, and with a uniformity in all notes varied only by the few distinctive marks necessary on each kind of currency, greater protection is expected to be afforded against counterfeiting and note-raising. The public will come to associate instinctively the portrait of Lincoln with the five-dollar note, and it will link together the portrait of Hamilton and the ten-dollar bill. Any variation from these combinations will arouse suspicion immediately. The confusion now existing by reason of the lack of uniformity of design should disappear and the genuineness of the various denominations should not be difficult to determine.

Another Innovation

ANOTHER innovation will be in the method of producing national bank notes. Individual currency plates, heretofore required to be made for each bank, will be necessary no longer. In-

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The Crux of the Oil Problem

By CHARLES W. WATERMAN
United States Senator from Colorado

Government Policies Endanger Conservation of Oil Resources. Industry Can Hardly Be Expected to Preserve Supply So Long As Government Fosters Complete Exploitation and Inevitable Exhaustion of Public Domain and Indian Lands is Contended.

THE United States is producing 1,000,000,000 barrels of petroleum annually, which is approximately 73 per cent of the world's total production. We have in storage more than 700,000,000 barrels. The amount of shut-in production in the United States, Colombia, and Venezuela is estimated at 3,000,000 barrels a day as against 1,000,000 a year ago. It is even likely that this estimate is far too small.

The overproduction menace, disturbing four years ago when President Coolidge created the Federal Oil Conservation Board, is more pronounced today, and its baneful influence overshadows 1929. During the present year the consumption of gasoline may increase 40,000,000 barrels over 1928, while lubricating oils and fuel oils will likewise show marked gains.

The government oil board has functioned for four years. It has made an exhaustive inquiry concerning the production, transportation, refining, distribution, use, and consumption of petroleum and its products and the probable available future supply in the United States. This inquiry deals with a great and most essential natural resource, limited in quantity by Nature, which is dwindling from day to day—dwindling because it is being utterly consumed at the rate of more than 1,000,000,000 barrels per annum and can not be either reproduced or replenished. With the growth of time this most valuable and necessary resource must inevitably reach the stage of practical exhaustion, at least so far as any general use is concerned.

Ruthless Dissipation

ALL estimates and opinions concerning existing supply of undiscovered petroleum in the ground and even the amount of oil contained in proved fields must of necessity be colored by conjecture. The fact remains, however, that our supply of petroleum, which in all human probability has reached or nearly reached its peak in production, has been for some years last past and still is being squandered at a riotous rate by the reckless and improvident methods of capture and ruthless dissipation of the natural gas dissolved in the oil or resident therewith in their natural state and situs beneath the surface.

During the last few years, new oil fields, frequently discovered, of large producing capacity, and their rapid and competitive exploitation have produced a supply of oil far above and beyond the demand of essential use, deluging the market with so great a supply, after satisfying such use, that petroleum has been forced into keen and violent competition with coal in nearly all its area of consumption, with the result that probably one-half of America's oil production is being used to displace the legitimate and effective use of coal.

Where to Begin

AS the first general counsel of the Federal Oil Conservation Board, Senator Waterman has studied the problem of over-production of petroleum and wasteful methods of recovery from all angles. He has reached the conclusion that the oil wells of the country will gush forth their torrents unchecked unless measures are devised to control their flow and that the beginning of actual conservation can only be made through restrictions against the unbridled tapping of the supplies below the surface.

The Time Is Ripe

THE waste of natural gas, incident to the past and present methods of capturing oil at the surface, is prodigal and extravagant, and is quite reliably estimated to be equivalent in value and effectiveness to a very large percentage of all the petroleum actually subjected to control and ownership.

In the light of these developments, it can hardly be argued that the time is not ripe for a rigid economy and conservation of this great and useful natural resource.

The Government can save the oil resources of its lands under the delegated power contained in Section 3 of Article IV of the Constitution, and by the same authority it can so legislate as to prevent drainage of the oil and gas from beneath the surface of its lands by the owners of lands adjacent or nearby.

The several states can, under their reserved police power, respectively regulate and control the capture of petroleum within their respective territories to any extent which will prevent waste and loss of oil, and also natural gas, and in aid of such purpose may prevent owners of surface from drawing oil in a manner wasteful of the oil and gas beneath the surface of other owners.

Many Apparent Barriers

UNDER the third paragraph of Section 10 of Article I of the Constitution, the several oil producing states may enter into a compact for the regulation and control of oil and gas production and have uniform laws to that end which, when ratified by the Congress, may accomplish the desired purpose; but the practicability of this method is doubtful in view of the many apparent barriers which beset the way of such a movement.

The question has been raised of late as to the power of the Federal government to prohibit the exportation of petroleum and its products.

Clause 3, Section 8, of Article I of the Constitution provides that:

"The Congress shall have power * * * to regulate commerce with foreign nations, and among the several states, and with the Indian tribes."

In view of the many declarations of the Supreme Court, it is unnecessary to discuss or define "commerce with foreign nations," more than to say that this power extends to every sort of trade and intercourse between the United States, the several states, and the citizens thereof, with foreign nations and their respective subjects.

Complete in Itself

THIS power was in the earliest days of the Republic held to extend to and embrace "navigation" as fully as though the very term itself had been used in the commerce clause.

The Congress, then, has powe- to regulate foreign commerce which embraces

both our exports and our imports.

This power to regulate is complete in itself, has no qualifications, and is expressly delegated by the Constitution to the Congress and is there exclusively vested. This power has no limitations whatever unless they are expressed in the Constitution or necessarily implied from expressions in that instrument, but there are no such limitations in the Constitution either expressed or implied. The authority of Congress over foreign commerce is so complete that no one can be held to have a vested right to carry on such commerce. The power of the Congress to regulate foreign commerce vests in that body the complete authority to prohibit merchandise carried in such commerce from entering the United States.

Cleavage Quite Clear

EXPORTS are as completely within the power of Congress to regulate as imports, because commerce with foreign nations embraces all intercourse with such nations. But, it is almost universally acknowledged, and has been for more than an hundred years, that there may be a commercial embargo as well as war time embargo.

Clearly, Congress may, in its discretion, prohibit the exportation of petroleum and its products.

Concerning the power of Federal regulation of petroleum and gas production from privately owned lands located within the state, I may say that fundamentally, the solution of this question depends solely upon an interpretation of the Constitution of the United States. The cleavage between the powers delegated to the United States and those reserved to the states respectively in that instrument, in view of the many decisions of the Supreme Court, has become quite clear. The Congress may exercise those powers, and those only, which are expressly delegated and those which may be requisite to the full exercise of the power expressly delegated. The states respectively may exercise all powers not delegated to the Federal government and not denied to the states.

Without attempting to define precisely the "police power", it may be said that generally it is the power to establish a system of laws tending to promote the health, order, convenience and comfort of the people and to prevent and punish offenses to the public. This power resides in the states respectively, because it is not delegated to the Federal government and is reserved to the states.

An Amazing Sequence

THE right to capture and gain absolute title to oil and gas beneath the surface of the earth is in the owner of the surface, subject to constitutional limitations, if any, and subject also to such restrictions as may be imposed by a lawful exercise of the police power.

With these general legal observations, more specific statement may be advanced relative to the more important branches of the petroleum industry as now conducted and the probable effect of present methods and volume of production and non-essential use upon the future supply of petroleum, general welfare, and national defense.

The intense and persistent activity in prospecting and exploring those portions of the country giving evidence of geological fitness for the presence of oil, during the last twenty years, has resulted in an amazing sequence of disclosures of major pools of oil in Texas, California, Arkansas, Louisiana, and the Mid-Continent fields, and a tremendous increase in production.

By Reason of Rivalry

THE price of oil has had little to do with this increase, but the production has had much to do with the price and the uses to which oil has been and is being put.

The magnitude of this production has been much influenced by the rapid and competitive drawing of the oil from the newly discovered pools by reason of the rivalry among the owners of the surface.

This rivalry, in production from new flush pools, arises principally out of the fact that the oil in the sands beneath the surface and the natural gas associated with it are migratory in character and the general rule of law that there is no absolute title in either until capture and control at the surface.

The incentive thus given to production has resulted in a promiscuous drilling of unnecessary, rival and wasteful wells; a sheer waste of a very large part of the associated gas, greatly lessening the amount of oil that can be salvaged by flowing and pumping; the waste of large quantities of the oil itself because of inability either to properly store or quickly market it; and the diversion of probably one-half of the total production from essential use to non-essential use strictly competitive with coal.

Will Preclude Recovery

IT fairly appears, as an approximation, that the usually adopted methods of production, past and present, salvage probably not to exceed 20 per cent on an average, of the oil resident in the sands exploited. This residuum of oil left in the sands is sometimes referred to as a vast reserve which may be summoned to stabilize the supply when flush production declines and price furnishes the necessary incentive to recover it.

In all probability, however, the apparent difficulties naturally interposed, the fortuity conditioning title, rivalry among surface owners and the exhaustion of natural gas, will preclude the recovery of any very material part of such oil, no matter what the price.

The Government itself is not without blame for this vast production during the last few years, because when production was at high tide it permitted the great surplus being produced, greatly in excess of any demand for essential use, to be swelled by many million barrels taken from the public domain, reserves, and Indian lands.

From the Upper Paleozoic

THE rapid exploitation and depletion of new fields hereafter discovered can not be controlled or even checked under the usual conditions of private surface ownership with its resulting insatiate rivalry in acquiring title to the oil at the surface, unless and until some competent superior authority assumes control and exercises sane regulatory power, in consonance with an intelligent public policy, to the end that this most important, waning, natural resource shall not continue to be squandered, by present methods of wasteful production, nor so large a portion of the supply diverted and consumed for uses which may be satisfied by coal. A shortage in production will naturally, by influencing price, compel selective use of oil products, but will not in the slightest influence the methods of production under other existing conditions.

Since the discovery of petroleum, probably more than 90 per cent of its world production has been drawn from the Upper Paleozoic and Tertiary formations. This fact is highly significant, in forecasting supply in the United States, in view of the general admission among scientific men that the presence of petroleum in commercial quantity is limited to certain definite kinds of sedimentary formation, accompanied by well-recognized necessary geological conditions, which are found more generally in the formations above specified than elsewhere.

The possible oil areas of the United States, that is, the sedimentary formations giving any promise, have been so thoroughly explored and geologized during the last fifteen years, by the best scientific men of the country, that only the wildest sort of speculation even suggests that there is any probability of any important new discovery of oil resource outside of areas now well known and either already fully exploited or in the process of active exploitation.

Unnecessary Depletion

ALL this means that if the country continues to produce and consume petroleum improvidently and extravagantly, as it has been doing and is still doing, without regard to the character or quantity of the resource or the uses to which only it should be devoted, then surely a cessation in flush production, which must come at some period, perhaps even in the near future, will force higher prices, selective use, greater economy in such use, and higher technique in oil refining.

In view of the character of the oil resource and the probabilities of continued future supply, the use of oil in competition with coal is a waste, in that it is an unnecessary depletion of a limited natural resource, but not a waste in the sense of physical destruction without utility.

So long as production exceeds essen-

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Analysis to Benefit the Cooperatives

By C. B. SHERMAN

Government Studies Management Methods of Farm Cooperatives. Business Analyses of Various Marketing Organizations Being Made to Determine Reasons for Success or Failure. Program Part of Agricultural Research Policy of President Coolidge.

"ONE of the greatest handicaps of agriculture is temporary overproduction" President Coolidge declared in his recent address before the National Grange. "The world is hungry to consume all that the farmer ever raises. His difficulty arises from attempting to sell at the wrong time or the wrong place. The most successful method of meeting this difficulty has been through cooperative associations. They have enabled agriculture in a large way to take better advantage of all the agencies of distribution—the bankers, the carriers, the commission merchants, the packers, and the millers. This is a movement to unify all the agencies of production, distribution and consumption, so that they can function as a coordinated whole which will sell at the right place and at the right time. . . .

"This movement toward cooperative marketing is still in its infancy. It has sometimes failed through lack of management, but it is sound in theory, and when conducted in a businesslike way offers the most promising solution to the great marketing problem. . . ."

Realization of this necessity for businesslike conduct of cooperatives has been increasing with the years, even as the earlier tendency toward a blind belief in "cooperation" as a kind of panacea or magic has been disappearing from the American scene. Moreover, it is not enough that we have large and profitable cooperative organizations, it is reasoned, but we must know why these associations are succeeding so well and must learn if they are neglecting opportunities to be even more successful, not many of these organizations have been in a position, as yet, to develop commercial research. A few are organizing departments for price analyses and other statistical work, but this information is used chiefly in connection with price and sales policies rather than with general operating and management policies and problems.

Must Meet the Tests

MANAGEMENT of a large cooperative usually involves the problems of other large businesses in the commercial field, plus other problems that pertain more strictly to cooperative endeavor. These latter include problems of membership, and the problems of ownership of products handled, in relation to time of selling and to prices. The management of a successful cooperative must meet the tests of good management in private business but must meet other tests as well. Yet cooperatives generally have not had access to business analysts who were skilled in internal operating practices and problems, as well as in market research.

Financial policies, though vital, necessarily vary considerably with the type and size of organization. Even among going concerns, questions of costs of operation, sources of fixed and working capital, policies regarding the building of reserves and securing and extending production credit often need thorough reconsideration. Therefore, that phase of the research program of the Division of Cooperative Marketing in the United States Department of Agriculture which deals with detailed, critical, intensive studies and analyses of the organization and operation of individual farm cooperative associations is attracting increased interest, although the findings can not usually be couched in terms that make them easy reading. These cooperative business analyses are in great demand, but an analysis is not undertaken by the division unless it is felt that it will yield experience or results that will benefit other cooperatives or other businesses as well as the ones analyzed.

Guides to Credit Risks

EXTENSIVE statistical studies of cooperative marketing associations are being made by Government experts to find out if they are being operated along the most efficient lines to help solve the great problem of distribution which is one of the fundamental phases of the agricultural question. Data are being collected which will virtually make it possible for the management ratings of these organizations to serve as a guide to their standing as credit risks.

Egg Market Analyzed

"EACH study includes a complete survey and analysis of the set-up of an organization, its business and financial policies and practices, its relations with its members and its customers, and the economic environment under which it operates," Chris L. Christensen, who is in charge of that division, explains. "The division has been able by such studies to be of special assistance to particular associations and to bring together a body of facts relating to standards of efficiency for all cooperatives that are of value to cooperative associations and to leaders and students of cooperation everywhere. No rule-of-thumb method of procedure can be laid down for making one of these studies, for though certain principles must be kept always in mind the variation in the development of these associations necessitates variation in method of approach, analysis, and study.

"An economic study of the organization known as the Poultry Producers of Central California, for instance, was begun late in 1926, at the request of the board of directors. This association has enjoyed an almost continuous growth in membership and in deliveries by members. The study involved a thorough examination of the marketing machinery of the association, including legal structure, economic organization and operating practices, management, selling program, membership relations, policies and efficiency with regard to costs of selling, and other phases of the business. Then, as the study progressed, it was found necessary to cross to the Atlantic Coast and include a complete

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Midget Investment Trusts

By JOHN H. LIBBY

Installment Financing Produces More Competition for Banks. Investment Trusts for Small Investors Being Formed in Many Sections. Little Loan Company Movement Spreading. New Forces Compelling Changes in Banking Practices to Hold Depositors.

TWO developments in the financial field, the small loan company and the investment trust, both originally regarded as being outside the sphere of the ordinary bank, now seem to foreshadow major changes in banking practice.

The small loan business, though still flourishing in the hands of separately organized companies, has already been taken up by two of the largest banks in New York, and is causing many bankers to wonder whether it is not a regular function of the average bank which has simply been overlooked in the past. An investment department now in process of development by another large New York bank is organized along the lines of the more conservative investment trusts. It will be operated in much the same manner as a savings department, except that aside from the deductions for necessary expenses the bulk of the profits from the invested funds will go back to the investors, and not to the stockholders of the bank.

This really means that the bank has decided to mutualize its savings department, after the fashion set by the large insurance companies a quarter of a century ago. Both of these movements are still in their early stages, but they indicate that bankers are awake to the possibility of extending their business to whole new classes of customers with whom it was formerly thought unwise to have banking relations.

New Competitor

CONFIDENCE in the value of the average man or woman in the country as a credit risk built up through the enormous expansion of the installment plan of selling merchandise has led to the development of two new factors in the financial field —small loans and small investment trusts. Most banks are now familiar with the "character loan," but many are not aware of the existence of their newest competitor—the investment trust that operates on small sums paid in the form of savings.

Overcoming Tradition

BANKS are not experimental laboratories, and it is not strange that the pioneer work in the two movements now so actively engaging their attention should have been done outside banking circles. Generally speaking, a man without salable assets is still unable to borrow. It is estimated that 85 per cent of the population of the country have no banking relations, and, therefore, no borrowing power other than that which is based on personal friendship or on the value of trinkets at the pawnshop. When the late J. P. Morgan made his much quoted remark that money should be loaned on the basis of character, the tradition that there must also be assets was not overcome. It is only within recent years that it has begun to dawn on the minds of lenders that this remark could be taken literally.

During the last few years a number of companies have been organized, particularly in the industrial cities of the country, whose sole purpose is to lend money in small amounts to persons of small means. These loans are made to people who are without borrowing power at the banks of their communities. The small loan companies should not in any way be confused with the loan sharks and pawnbrokers. Most of these companies are organized under the uniform small loan law which has been adopted, with minor variations, by twenty-five states. Their whole business consists of lending money in small sums with payments spread out at regular intervals over a period of months.

Convinced the Skeptical

LOANS are made for any of the emergencies with which families of small means are commonly faced, such as expenses of sickness, child-birth, protection of investments or insurance, or the purchase of homes or other desirable property. The loans are made after a careful investigation of the reliability of the borrower and his ability to hold a job and earn a regular salary or wages. If the investigation proves satisfactory and the purpose for which the loan is desired is approved, money is loaned to the amount of the face value of the borrower's note. No indorsement is required. The interest charges, of course, are higher than those charged by banks on ordinary business loans. This is entirely legitimate, as the expense of the investigation of the borrower, and the clerical expense of taking care of a great number of small accounts warrants an extra charge.

The small loan companies have arisen as a natural consequence of the country's experience with installment selling. It was by means of this device that the business community of the country established the going concern value of the average man. Installment selling is a comparatively ancient institution, but up to the period of the war it was used only in the selling of goods whose value was little affected by use, such as sewing machines, pianos and jewels. It was only after the war, when factories faced a curtailment of production or a wide extension of their markets, that installment selling was extended to more easily consumable articles.

An installment sale is actually an extension of credit. Merchants and manufacturers of the more conservative type had serious fears that when consumable goods, such as household appliances and automobiles, were sold on the installment plan to buyers with little in the nature of salable assets, it meant the taking of unwarrantable credit risks. The immediate popularity and growth of the system soon convinced even the most skeptical that the average man, even when he has no salable assets, is a good credit risk.

Installment Loans

AS experience in installment selling has accumulated and been made available, it has been found that in most lines of goods losses range only from one-half of 1 per cent to 3 per cent, as most of the companies selling goods on installments have only meager facilities for investigating the credit of their buyers, and the majority of such sales are made without any investigation whatever beyond the statement of the individual himself.

Installment selling has established the credit of the average man. As long as he holds a steady job he can generally be counted on to meet an obligation that he has voluntarily entered into, provided

(Continued on page 824)

Our Stake in Latin America

By GROSVENOR JONES

Chief, Finance and Investment Division, Bureau of Foreign and Domestic Commerce

United States Investments in Latin America Greater Than in Any Other Continent By At Least One Billion Dollars. Demand for Latin American Products Has Attracted Capital Steadily. American Capital in Southern Republics Over Five Billions.

Below the Rio Grande

PRESIDENT - ELECT HOOVER'S visit of good-will to South America has tightened the bonds of friendship between two continents and has focused the eyes of the world upon the countries below the Rio Grande. Despite the propinquity of the Americas, few in this country realize the enormous material value of this fellowship from the standpoint of capital investments. This is the first of two articles by Mr. Jones on this subject.

CERTAIN events of recent months have directed attention to the variety as well as the extent of our investments in Latin America. Of particular significance are the announcements that the International Telephone and Telegraph Company is about to absorb the British-owned telephone system of Buenos Aires and that the American and Foreign Power Company has acquired the holdings of the Whitehall Electric Investments, Ltd., of London in public utilities in Chile and Mexico. As a matter of fact, during the past year scarcely a month has passed without an announcement of the acquisition by American interests of new properties in the countries to the south of the United States or of a loan to their governments.

Our interest in Latin American investments is not, however, entirely new. It goes back as far at least as the middle of the last century when William Wheelwright, the able shipping master from New Bedford, Massachusetts, projected the first line of steamships on the West Coast of South America and sought to enlist, but without success, the financial aid of Commodore Vanderbilt and other capitalists of that period. Wheelwright secured his capital in England and the line he established—the Pacific Steam Navigation Company—is operating to this day under the British flag. Wheelwright developed certain coal deposits in Chile, chiefly for the benefit of his steamship line; and he established some of the first railways in Chile and Argentina.

Other American pioneers like Wheelwright foresaw clearly the economic future of Latin America and played a part in the development of the natural resources of several Latin American countries. Their efforts were not, however, supported by American capital. The time was not propitious for that. The United States was itself a new country and could put to good use within its own borders all of the capital it created and more. We were a capital-importing rather than a capital-exporting nation.

Capital Export Began

TOWARD the close of the nineteenth century our position in the world's capital markets began to change. Although our railroads still found it cheaper to raise capital in Paris, Amsterdam, London or other European markets, than in New York, our manufacturing, mining, and petroleum companies had begun to make investments in foreign countries out of their own resources and for their own particular motives.

The economic development of the United States had in the late nineties reached the point at which it was possible to export capital on a limited scale. The tide in the movement of capital had begun to turn.

Branch factories in Canada and Europe, mining and petroleum developments in Mexico, and railroad construction in Mexico and Cuba were the chief outlets for the export of capital from this country thirty years ago.

Our Investment Eggs

DOWN to the outbreak of the World War capital flowed in steadily increasing volume to the nearby countries through certain special channels. The flow was not induced by a superabundance of funds seeking profitable fields of employment abroad nor to the fact that the world lacked capital for the normal development of the countries into which our capital was then invested. Rather was the outflow a result of special factors, such as propinquity, the desire to improve a position in international trade or to get behind the tariff walls of foreign countries, the necessity of conforming with foreign patent law requirements or other similar considerations.

At the outbreak of the World War the United States had foreign investments aggregating about $2,250,000,000, according to the best available estimates. Of this total nearly $1,250,000,000 was invested in Latin America. Mexico alone accounted for about $900,000,000; Cuba for about $150,000,000; Central America for about $50,000,000; and the entire South American continent, for only $100,000,000. Our investment eggs were largely—five out of every ten—in the Latin-American basket and four of the five in that basket were Mexican.

Our foreign investments fifteen years ago consisted very largely of direct investments in properties owned or controlled by American citizens. This was particularly true of our investments in Latin America. Our holdings of Latin American government bonds constituted a mere fraction of the total. Aside from small participations in a number of issues of the Mexican government, there were a few issues for the governments of Cuba, Dominican Republic and Panama. Americans had a hand in floating certain loans of the Costa Rican and Bolivian governments but held no large part of those issues. All told, Americans did not hold much more than $150,000,000 of Latin American government securities.

The Inevitable Shift

DOWN to 1914 our investments in Latin America consisted chiefly of capital placed in a limited number of special enterprises financed by North American companies or by groups of our capitalists out of their own resources, that is, without direct recourse to our securities markets. This was true of our investments in mining enterprises in Mexico, Peru and Chile; in petroleum in Mexico; in banana properties in several of the Caribbean countries; in sugar and tobacco in Cuba; in meat packing plants in Argentina and Uruguay.

The change in our position in interna-

tional finance from that of a debtor nation to that of a creditor nation, which was clearly foreseen thirty years ago, actually took place in 1915 or 1916. It was then that our total investments abroad began to exceed the aggregate of foreigners' investments in the United States. As is well known, the World War hastened the inevitable shift. Large loans to the nations engaged in the War—to Great Britain and France in particular—were a large factor in bringing about this change but more important at the time was the repurchase by us of American securities held abroad.

It was not long after the outbreak of the War, however, that the American public began to place huge amounts of capital in European government loans and the New York money market for the first time in its history assumed definitely an international character.

Reluctant Borrowers

THE added prosperity which resulted from the war-time purchases of the belligerents, not only made it possible for the American securities market to absorb hundreds of millions of foreign loans but also led to an increase in our direct investments abroad, especially in Latin America. The extraordinary demand for their products brought prosperity to practically all of the Latin American countries with the inevitable result that capital was attracted to them on an increasing scale.

After the outbreak of the War the governments of Latin America found it difficult to borrow in the money markets of Europe, as they had been doing on a large scale for many years. Nevertheless they did not freely resort to the New York money market until after the Armistice. One reason was that the surplus of our capital available for foreign loans was absorbed largely by loans to the Allied governments until we entered the War and by our own government for nearly two years after that date. The record shows that until 1921 Latin American governments placed comparatively few issues in the United States. The explanation of this lies not in the lack of demand for foreign capital on their part so much as in their reluctance to pay the higher interest required by our investors. Latin American governments had been accustomed prior to 1914 to borrow in Europe at comparatively low rates of interest and were reluctant to pay the higher rates demanded in our money market.

A Notable Innovation

DURING the period 1914 to 1920, inclusive, our loans to Latin American governments totaled only about $130,000,000, of which about $25,000,000 was for refunding prior issues in this market. Argentina was the chief borrower during this period with several short-term loans and credits aggregating $72,000,000.

During this period, however, several large issues were publicly offered in the New York money market on behalf of American corporations engaged in mining, oil, sugar, and other enterprises in Latin America. Altogether in the seven years ending December 31, 1920, securities publicly offered in this market for such enterprises aggregated about $290,000,000. Of this total about $140,000,000 represents issues of sugar companies and about $90,000,000 for mining companies.

The financing of American enterprises in Latin America by means of securities publicly offered on behalf of the interested companies rather than by issues of the parent companies in the United States or by issues privately taken was a notable innovation.

In 1921 Latin American issues, both governmental and private, began to take on large proportions and has shown a rising tendency since that time. This is evident from the accompanying table which shows the volume of Latin American issues by years for the period 1914 to 1928, inclusive:

Annual Volume of Latin American Issues

In Millions of Dollars

	All Issues			Government			Corporate		
Year	Nominal	Refunding	Net (New) Capital	Total	Refunding	Net (New) Capital	Total	Refunding	Net (New) Capital
1914	13.9	...	13.9	12.3	...	12.3	1.6	...	1.6
1915	52.5	15.0	37.5	31.0	15.0	16.0	21.5	...	21.5
1916	152.0	3.0	149.0	40.2	...	40.2	111.8	3.0	108.8
1917	87.0	17.0	70.0	15.5	5.0	10.5	71.5	12.0	59.5
1918	7.9	0.6	7.3	5.8	...	5.8	2.1	0.6	1.5
1919	53.6	14.2	39.4	18.5	5.0	13.5	35.1	9.2	25.9
1920	54.0	...	54.0	5.0	...	5.0	49.0	...	49.0
1921	238.2	11.9	226.3	189.0	...	189.0	49.2	11.9	37.3
1922	257.5	34.1	223.4	186.3	25.5	160.8	71.2	8.6	62.6
1923	173.1	59.0	114.1	117.5	55.0	62.5	55.6	4.0	51.6
1924	202.9	54.5	148.4	117.0	42.5	74.5	85.9	12.0	73.9
1925	214.0	81.0	133.0	163.5	76.7	86.8	50.5	4.3	46.2
1926	458.8	103.8	355.0	317.7	34.1	283.6	141.1	69.7	71.4
1927	433.7	74.5	359.2	331.3	35.0	296.3	102.3	39.5	62.8
1928 (est.)	373.0	117.8	256.2	342.6	116.8	225.8	30.5	1.0	29.5

American capital is now represented by issues of governments or corporations or by direct investments in every country of Latin America. The total amount of the capital so represented ranges from $5,000,000,000 to $5,500,000,000; if the exact figure could ever be determined it would probably be nearer $5,000,000,000.

Varied and Extensive

THE elements of uncertainty in making estimates of our foreign loans and investments lie chiefly in placing a valuation on those investments which are not represented by securities publicly offered or are only partially represented thereby; and in determining the extent to which securities publicly offered have been repurchased abroad. The latter element is important in the case of European issues but not as regards those for Latin America. On the other hand, it is much more difficult to estimate the value of our direct investments in Latin America than those in other parts of the world, since our Latin American investments are much more varied and extensive there than elsewhere, save possibly in Canada.

These elements of uncertainty should be stressed, since in a large degree they serve to explain why the estimates published by the Department of Commerce fall considerably below those given out by private individuals and agencies.

To illustrate a few of the difficulties that arise in placing a valuation upon the direct investments of American capital in Latin American industries, let us take the case of our investments in Cuban sugar properties. Our total investment in these properties is commonly estimated at from $600,000,000 to $750,000,000; a few have placed the total as high as $1,000,000,000. Yet our record of foreign issues which has been made up after careful search of all available data shows a gross total of bond and stock issues in this market for all Cuban sugar companies during the past fifteen years of less than $300,000,000. Even this total includes certain duplications and figures for companies that might not be American-owned or controlled. A part of the difference may be accoounted for by the fact that after the collapse in the Cuban sugar industry in 1920 and 1921 American commercial bankers had to take over a large number of sugar companies in satisfaction of short-term loans. No one knows the total amount of such loans nor the actual going value of the properties thus acquired; the former was undoubtedly quite large and the latter probably much greater. No one knows how much of the high earnings of the companies during the period of twenty-cent sugar was ploughed back into the properties nor, on the other hand, how much of the inflated prices paid for land, buildings and machinery during those parlous days has been written off in one form or another.

What Is the Value?

A SIMILAR problem arises in the case of our investments in petroleum properties in Mexico. Who can tell within a hundred million dollars what their going value is today?

Before a reliable answer could be given one would have to adopt a basis for determining the value of the properties and to get access to the books and records of each company. What is the value of our investment in such enterprises? Is it the amount of the capital originally placed therein plus the earnings that have gone into plant or equipment, less depletion and depreciation? Or should this valuation be increased to allow for the value added by

(*Continued on page 826*)

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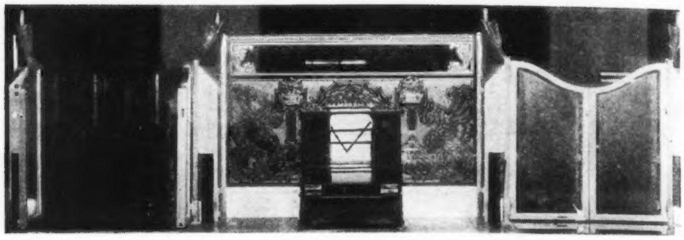

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Bulwarks of Safe Banking

By GILBERT THORNDYKE

Based on the American Bankers Association Study of the Causes of Bank Failures

Good Management Revealed as Chief Asset of Banking Success. Results of Scientific Inquiry Into Causes of Bank Failures Discloses Internal Conditions Are of Greater Importance to Survival of Institution than Outside Factors. Changes Urged.

Nature's Law

RESEARCH into the records of banks that had fallen out of the ranks of going institutions points to the inevitable conclusion that banking is subject to one of the inexorable laws of nature—the survival of the fittest. Comparison of the results of actual operations in the light of all the surrounding circumstances of economic conditions leads to the unescapable fact that efficiency is the secret of bank success, incompetency the overwhelming force of failure.

THE future of banking in this country lies with the banks. Success or failure rests upon the forces within each individual institution. External conditions may combine to produce an unhealthy banking situation in any locality but the determination of which banks must fail and which will survive lies with the internal conditions in each bank.

Incompetence and mismanagement are the internal factors responsible for wrong tendencies that develop some time prior to failure and which grow worse instead of better when external conditions are bad. In general, the mismanaged banks fail and the well-managed ones survive.

Such are the fundamental theories of sound and unsound banking as developed from a comprehensive study of the causes of banking failures and possible remedies and preventives made by William McKinley Edens, of Chicago, for the American Bankers Association under a fellowship created for the purpose at the Harvard Graduate School of Business Administration.

No Panacea Found

FOR the purposes of the study a representative section of the country was selected. The subject was so large that it was necessary to confine it to some one territory so that the gathering of data would not consume an amount of time disproportionate with the objects to be gained. It was felt that with certain modifications for varying economic conditions the principles to be derived from the intensive study of the record of the banks of one section of the country would be the same as from another.

The study, which was begun a year ago, was concerned with the reasons for the number of bank failures which had occurred in recent years. Detailed examination of these causes, as they were found and analyzed, it was believed would clarify the pitfalls of banking on the one hand and point the road to safety on the other.

No panacea for banking ills was found. Nor was any single symptom of disease isolated. Mr. Edens, in his report, disclaimed any attempt to offer any cure-all for banking ills, nor did he find any hitherto undiscovered cause of failures. His work was the examination of much that had been suggested, even widely discussed, as banking troubles. But his approach to the problem was in the light of specific data and carefully compiled statistics instead of the current medium of surmise and speculation.

External Factors

PLACING the emphasis for bank failures upon the two internal causes of incompetence and mismanagement, the report also details seven external causes which combined during recent years to bring about a situation in which it was inevitable that a substantial number of banks should fail. These external factors are: Lack of industrial diversification and other economic conditions; real estate speculation; post-war agricultural conditions; over-banking; banking laws; stock speculation; and runs.

In the representative area lack of industrial diversification and other economic conditions played an important part in that the banks were almost entirely dependent on agriculture for business. This gave rise to one dominant type of loans. There was found to be normally an excess of local demands for credit over the amount of local deposits, making seasonal borrowing necessary and adding to the difficulty of maintaining a secondary reserve. High land values caused heavy investment per farming unit, and hence heavy carrying charges on such security when taken over to secure previous debts. This made it difficult to recoup the losses of one or two bad years, and especially handicapped the small bank.

Real estate speculation, while an important contributing factor, was not so dominating a cause that failures occurred in localities in direct proportion to the rate of increase in farm land values. Accelerated by easy credit and the speculative urge, the sharp upward adjustment of land values which began in 1919 continued until well into 1920, at which time values were so high as to be entirely out of proportion to incomes. Meanwhile farms became heavily encumbered as they changed hands. Some banks encouraged land deals during the boom, and even helped finance them. Many institutions found that their borrowers had mortgaged their land to the point where the equity upon which the security of straight loans rested was rendered questionable.

Post-war agricultural conditions and their effect upon banking is well remembered. In the representative area there was accumulated an overwhelming aggregate of non-earning self-consuming assets, dependent for liquidation upon the sale of real estate, for which there was no market.

Over-Banking Serious

OVER-BANKING is perhaps the chief of the external influences that lead to failures. Loose chartering policies in the representative area during the decade prior to the war, together with no prohibition of private banking gave rise to three serious developments, namely: The organization of too many small banks, which were handicapped by ridiculously small earning powers; an unhealthy competitive situation which prompted bankers to engage in highly imprudent and dangerous practices to obtain business and hence maintain earnings; and the entrance of many men into the banking business who were incompetent.

Losses from stock speculation were found to be of slight significance as compared with losses arising out of real estate speculation.

While banking laws vary exceedingly among states, and differ from the National Bank Act, this circumstance does not seem to have had any bearing upon the location or severity of failures.

Bad Practices

THE influence of runs as a prime cause of failure is belittled by the discovery that less than 20 per cent of the failures studied occurred within ten days of suspension in immediate localities. Among the closures in which runs could be construed as an important cause, there were found several instances of dangerous internal conditions of long standing.

Steadily rising land values in the years preceding the boom rendered banking a lucrative business and hundreds of unqualified men were induced to engage in this occupation. In the area selected for study this condition was partially responsible for the evil of incompetence but it was found also that many incompetent men had attained positions of banking responsibility for special reasons other than their fitness.

Incompetence naturally led to mismanagement, its twin evil. A detailed study of seventy-one failed banks of all sizes distributed uniformly over the representative section disclosed the existence of many bad practices for several years prior to failure. The following list shows the more outstanding of these practices, the percentages indicating the proportion of the seventy-one banks that indulged in each particular practice:

		Per Cent
1.	Accumulation of dangerous aggregate of real estate security to secure previous debts	80.3
2.	Habitual and substantial excess loans	69.0
3.	Large aggregate of capital loans	31.0
4.	Unduly large lines to single interests, not technically excessive	38.0
5.	Trading paper with other banks	39.4
6.	20 per cent or more past due paper	56.3
7.	Large lines to officers, directors and their interests	83.1
8.	Negligence of directors	60.7
9.	No secondary reserve	97.3
10.	Excessive borrowings	60.7
11.	5 per cent or more on time deposits	83.6

By way of contrast, the policies of sixty-five solvent reasonably well operated banks were determined from interviews with the men who operated them during and following the inflation years. In general it was found that these banks abstained from any encouragement of real estate speculation, and that they maintained a rather high degree of liquidity throughout.

Fundamental Influences

SUMMING up the reasons for bank failures as indicated by the results of the study, Mr. Edens reported:

"The conclusion in the study of causes is that over-banking, incompetence and mismanagement were the fundamental influences which rendered it impossible for some 500 banks in the selected area to weather the unusual conditions imposed by land speculation, deflated values, and prolonged agricultural depression. Lack of industrial diversification was an additional handicap to management. The other factors —banking laws, stock speculation and runs—were distinctly supplementary and altogether of a minor character."

No single measure is expected to be a cure-all for bank failures. Each of the remedies and preventives developed through the study has its place, and in most cases would offer most promise when practiced in conjunction with others.

Some of the most outstanding factors for successful banking under present-day conditions, Mr. Edens found to be: Consolidation; regional clearinghouses; ratio analysis; wise legislation; efficient supervision; and the setting up of contingent reserves.

Clearinghouses Favored

CONSOLIDATION was recommended by the report as of immediate value in eliminating over-banked conditions which still exist even after many failures. The report expressed the opinion that consolidations should decrease the number of banks and enhance the size of those that remain, thus doing away with cutthroat competition and enlarging earning power. It was noted that this step has already been taken in many quarters.

The development of the regional clearing house plan which is being urged by the Clearinghouse Section of the American Bankers Association was supported by the findings of the report. On this subject, the report said:

"This is an association of banks in a particular territory, to which is permanently assigned a single departmental examiner, who performs all the functions of a private clearinghouse examiner, but in the employ and with the authority of the state. The aim is to provide the associated banks with a self-supervision comparable to that of city clearinghouses, but at a cost within the reach of country banks. For this purpose a committee is named to cooperate with the examiner so far as statutes and by-laws permit. Membership is not compulsory, nor is any bank denied admission. The success of the project would seem to rest upon (1) creating a high degree of cooperation among the banks, (2) obtaining capable leadership, and (3) securing the cooperation of state and national departments. A credit bureau and round-table of bank officers are included in the program of such an association. The one at Fremont, Nebraska is the pioneer in the movement, and its single year of operation appears entirely satisfactory. The idea has been taken up in Missouri and Illinois, and the results will be watched with interest. Although a sweeping, overnight growth of regional clearinghouses would be premature, the motives behind the movement deserve encouragement."

Bank examinations, according to the report, should go beyond mere auditing and appraisals. The heaviest burden of education of country bankers and improvement in management will rest upon banking departments which should be organized to this end. The quality of supervision is dependent in great measure upon legislation. While banking laws were found to have had no direct connection with the severity of failures, nevertheless they should be designed to prevent the establishment of unwarranted banks by requiring definite proof of the need for additional banking facilities. The licensing of bankers was regarded as still in the experimental stage, with little evidence yet available for judging the project.

"Danger Points"

RATIO analysis was recommended to use both by supervising authorities and regional clearinghouses. This means the detection of wrong tendencies in a bank at the outset by the application of a few standard ratios of items in its statement. These include earnings, past due and criticized paper, borrowed money and others. If the ratios in a particular bank are out of line with the standard amounts for such ratios, it is time to take constructive action, and not wait until the situation has gone beyond control.

The report submits five such ratios, or "danger points," beyond which a bank could not usually go with safety. These limits were set after computing the ratios of a large number of banks in the representative area and comparing them with banks in other parts of the country. These are the "danger points":

	Per Cent
Net profits after charge offs and recoveries, but before dividends, to capital surplus and undivided profit	7
Slow and doubtful assets and estimated losses to total assets	10
Past-due paper to total loans	10
Borrowed money to capital, surplus and undivided profits	100
Total deposits to capital, surplus and undivided profits	6 to 1

These are not regarded as hard and fast limits beyond which there is no alternative but failure. But when all of these ratios are interpreted together, in the light of local conditions, they aid materially in rating the banks and in revealing the ones which are most in need of correction.

Changes Recommended

A DEFINITE change in banking practice is recommended by the report which favors the setting up of adequate contingent reserves as insurance against difficult periods. It was considered notable that unlike ordinary businesses, most banks do not set aside a reserve for bad debts which is really available for such use. The surplus account is inflexible, because any downward changes are quickly sensed by the public, which at once becomes apprehensive. For this reason most bankers are unwilling to admit losses.

A true contingent reserve, the report urges, should be set up and its violent fluctuations hidden from public view, although made known to examiners. For the satisfaction of the layman, a substantial surplus account is, of course, desirable in addition. As large and unusual losses occur they can be charged to the hidden reserve without creating public distrust.

Considering banking in its broadest sense the study took up the question of stock ownership, one that has become of increasing prominence of late. Results of the investigation led to the belief that there is greater security for the country bank in close, financially responsible ownership, than in widely scattered stockholding. The former type

(*Continued on page* 798)

The March of the Mergers

By CARL WILSON

Merger Movement Strengthening Hand of Independent Bankers. Spread of Consolidations to Country Districts Is Enlarging Average Size of Banks Thus Building Up Greater Competitive Power Against Chains and Branches. More Mergers Predicted.

BANKING has definitely turned the corner in the direction of larger units. The consolidation movement which started in the financial centers has spread to the country districts. A rapid change is taking place in the relative size of the banking institutions of the United States.

Big banks are growing bigger and fewer. But the small banks are also growing larger as they, too, decline in numbers. Great mergers of nationally known banks such as have taken place in New York and Chicago, producing the super-banks of today, have served to give bank consolidations a color of metropolitanism. Popular attention is focused upon the spectacular, the imagination-gripping picture of the marriage of millions. Less attention is paid to the merger movement throughout the country as it alters the shape of the American banking structure.

More to Come

WHAT is going on in the sections of the country usually classified, from the standpoint of banking, as the country districts, is epitomized by Roy L. Bone, ex-bank commissioner, Kansas, whose observations are prophetic and applicable to other states besides his own. In his annual report for 1928 he said:

> "In my judgment there are still too many banks in Kansas and there is need for more consolidations. The bankers of the state recognize this fact and I predict that during the next year many consolidations will be made."

Kansas now has 846 state banks. From Sept. 1, 1926, to Sept. 1, 1928, there were fifty-two mergers.

It is known that it is the premeditated policy of state bank supervisory officers in many other jurisdictions to encourage bank mergers in communities where there are too many competing banks and even to bring official pressure to bear toward this end in order to reduce overbanking. This policy is one of the most significant phases of the bank merger movement going on, as it is eliminating uneconomic banking units in many parts of the country and creating sounder local banking conditions. The big city bank merger movement aims to create more powerful banking institutions through consolidations of existing strength. The country bank merger movement differs in that it aims to create stronger banking institutions through eliminations of existing weaknesses.

The Comptroller of the Currency reports that during the year ended Oct. 31, 1928, fifty-two national banking associations throughout the country were consolidated into twenty-five under the authority of the act of Nov. 7, 1918. There have been twenty-five consolidations under the McFadden Act of Feb. 25, 1927, which authorized the consolidation of state banks with national banks.

What the Record Shows

COMPLETE statistics for 1928 are not yet available, but the reports of the Comptroller and of the Bank Commissioner of Kansas clearly show the continuation of the trend which first assumed major proportions in 1921 and registered a new development in 1927.

The following table shows the number of mergers affecting member banks of the Federal Reserve System, including national banks, for a period of thirteen years:

Year	Total	Year	Total
1915	55	1922	125
1916	56	1923	120
1917	35	1924	118
1918	36	1925	103
1919	78	1926	150
1920	77	1927	247
1921	104		

The number of mergers did not exceed seventy-eight in any year prior to 1921, and averaged only fifty-six per year for the six years from 1915 to 1920. But in each of the seven years following, the number of mergers each year was in excess of 100 and in 1927 exceeding 200.

The Latest Development

THE merger has now become an important factor in the continued annual reduction in the number of banks. For several years the number of banks in the country as a whole has fallen off as a result of liquidations, absorptions—through the expansion of the group and branch systems—and consolidations. The latest development is a decline in the number of liquidations and an increase in the number of mergers.

For the seven years ending June 30, 1928, according to the figures of the Comptroller of the Currency for all reporting banks, the decrease in the number of banks amounted to 3555, and the increase in aggregate resources to more than $22.000,000,000, the average value of resources per bank increasing in round numbers from $1,600,000 in 1921 to $2,700,000, in 1928.

The decrease in the number of banks during these seven years was greater than the increase recorded for the preceding seven years, 1914-1921. As a result the total number of banks in 1928 was less than in 1914. The total number of banks on June 30, 1914 was 26,723 and on June 30, 1928 the total was 26,213.

A New Force

TOTAL resources of banks, and average value of resources per bank, have increased each year since 1914, with the exception of 1921 when there was a decrease from the exceptionally high values of 1921. However, the increase in the value of resources during the seven years from 1914 to 1921 occurred in a period of rapidly advancing prices and if the average value of banking assets were reduced roughly to 1913 dollars by the application of current price indexes the increase would disappear.

The period since 1921 has been one of a relatively more stable, if not appreciating dollar. Changes in the value of the dollar as measured in current price indexes cannot of course be interpreted precisely in terms of banking assets. Nevertheless, with fair allowance for the peculiar nature of banking assets, it would appear that increase in average size of the banking unit measured in value of resources was in the first half of the past fourteen years largely a reflection of expanding values and rising prices, and in the latter half of the period a result rather of the accumulation of resources under conditions of relatively stable valuations and prices.

As a general proposition size is the major element of strength in banking as in other things. As a result the expansion of the merger idea outward from the financial centers is producing a new force in the field of independent banking.

This force is beginning to exert itself in the country banking districts. Where the banking facilities of a community represent the concentration of localized financial strength the invasion of outside interests into the field is no easy task, and one frequently not undertaken.

The bank employee who gets in a rut is a drag on the progress of his bank. The JOURNAL keeps him out of ruts by enthusing him with the ever-inspiring picture of new banking achievements. See that he reads it—at his home!

A New Factor In French Finance

By HENRI GUITARD
Deputy Examiner, The Bank of France, Paris

Paris Believes Bank of France Plans Open Market Operations. French Bankers Considering Results of Influence Upon Money Market and Acceptance Market Caused by Other Central Banks. Acceptances to Play Bigger Part in French Credit Structure.

FRANCE is again on a gold basis and money rates are so high that for some weeks the volume of bankers' acceptances outstanding has visibly increased. As a result there is considerable speculation as to whether Paris is on the road to become as Amsterdam, New York and London, a huge acceptance market?

It is hardly necessary to explain the machinery of the acceptance business. Every banker knows what an acceptance is. Through its operation the banker lends his own credit, when he accepts a bill drawn upon him either by the credit beneficiary or by any one else.

In the first case an acceptance is the method of materializing the credit offered by the banker to the client. The banker accepts a bill sold later by the drawer in the market. This procedure is chiefly used for long-term credits. In the second case, when the banker accepts a bill drawn upon him by a merchant, he does it in order to take the place of a little known buyer to whom a credit would not be granted so easily as to a banker. Such are documentary credits.

New Markets Develop

THIS business made the wealth of London houses; Baring, Goschen, Shroder or Hambros. They escaped the banking concentration and kept their independence.

Before the war the acceptance business was limited in each country to its own trade financing, save in London, a big international market and the world's financial capital.

In the post war time other markets, New York and Amsterdam, have continuously developed and still are in process of expansion.

Situation Changing

BUT in France the monetary situation has restricted bank activity to domestic credit market. The bulk of acceptances outstanding, small before the war, has been strongly reduced. For the six principal commercial banks (Crédit Lyonnais, Comptoir National d'escompte, Société Générale, Crédit Industriel, Banque Nationale de Crédit, Crédit Commercial) the amount of acceptances which was 609,000,000 francs on December 31, 1913, was only 315,000,000 on December 31, 1927, the equivalent of less than 75,000,000 pre-war francs.

Today this situation is gradually changing. In 1920 the "Banque Nationale du Commerce Extérieur" was organized, with the cooperation of financial and trade interests, and its statements show a steady growth of acceptances, and its activity has been maintained all through these last eight years.

In August, 1928, the "Compagnie Parisienne de Réescompte" was created. It is a typical acceptance house, subsidiary of both of the houses De Neuflize and Mallet.

A Mere Beginning

THE total of acceptances outstanding in France hardly reaches 2,000,000,000 francs, but through the action of the Bank of France this figure could be rapidly increased. The Bank statement contains a new item: "Bills bought in France". This represents bills bought in the open market from which it might be inferred that the Bank intends to launch into open market operations similar to those made by the Bank of England and the Federal Reserve banks.

Although the advisability of this policy is still freely discussed, the results obtained by central banks in other countries, both in respect to this influence upon the money market and to the expansion of the acceptance market, are in sight of every banker in France.

So far this item of the Bank of France statement amounts to only 60,000,000 francs, as of December 12, 1928. This must be considered as a mere beginning in the acceptance field which may be expected to develop in subsequent years.

FRENCH savings which before the war represented a comparatively large amount and were chiefly invested in long term loans, are now being sent over to New York, London and Berlin where they are invested in short term credits. They could be utilized to finance not only France's foreign trade but also to cooperate in the financing of other countries' trade. The geographical location of France is excellent as the gate of Central Europe, but for the time being international operations in Paris are hampered by certain formalities and expenses. It might be also desirable to create a new monetary unit, the present value of the franc being too small for international financing.

In any case, the Paris money market is in possession of the first factor of success: that is a plentiful supply of capital readily available for investment.

Mid-West Savings Meeting

THE first of four regional savings conferences to be sponsored by the Savings Bank Division of the American Bankers Association, will be held at the Pantlind Hotel, Grand Rapids, Mich., on Feb. 27 and 28.

A large attendance is indicated in reports to the committee in charge from bankers in Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin. The conference is under the direction of a local executive committee consisting of Gilbert L. Daane, president of the Grand Rapids Savings Bank, chairman; A. D. Crimmins, vice-president, Grand Rapids National Bank; T. W. Hefferan, vice-president, Kent State Bank, and Eugene Richards, vice-president, Old National Bank.

Among the subjects for discussion on the program of the conference are:

What is a good savings bank?

Where is the dead line between profitable and unprofitable savings accounts?

Approved methods for figuring savings interest.

Proper relation of savings and investment departments.

Reviving the dormant account.

Popularizing the savings account.

The inevitable clash—yield vs. liquidity.

Experience in savings advertising.

A regional conference for New England and the Middle Atlantic States will be held at the Commodore Hotel, New York City, on March 21 and 22. Detailed announcements of the plans for this meeting—probably one of the largest—will be made later.

Crowding Out Commercial Loans

By R. D. KILBORNE
Professor of Banking and Finance, Dartmouth College

Corporations Competing with Banks in Money Market Restrict Outlets for Bank Funds. Acceptances Factors in Situation. Decline in Commercial Loans Means Less Liquid Bank Assets. No Immediate Cause for Alarm but Trend Is Clearly Defined.

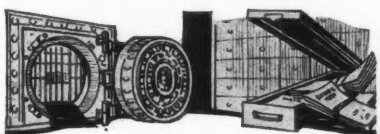
A STORY is told of William Wordsworth that after he had walked across the Alps he was surprised to learn that he had traveled over that magnificent chain of mountains. It is much the same with many things in life. The people who lived through the decay of feudalism scarcely recognized its downfall. The growth of money economy was such a gradual process that it is difficult, perhaps impossible, to tell when it began and how it grew. The monarchs of Great Britain lost their governing power so slowly that it was difficult for them to realize it.

Changes in the field of commercial banking are taking place slowly, but none the less surely. And it is quite possible that bankers giving their time and attention to their work do not realize such changes are happening. It is possible for a student of banking to see some of these changes partly because he may not be involved in the banking business and partly because of the extraordinary mass of banking statistics placed at his disposal by the government. If one will but study these banking statistics, one can see certain distinct chances taking place, although it is difficult to know just how far these changes will go.

The declining importance in commercial loans is the most significant change taking place in the field of commercial banking. Stated in another manner, commercial banks are losing their commercial banking characteristics.

Investments Increase

ONE of the indications of the decline of the strictly commercial banking business of commercial banks is the decline in the proportion of loans to loans and investments. As of Dec. 31, 1914, the total loans and investments of the member banks of the Federal Reserve System amounted to $8,500,000,000, while loans were $6,500,000,000 and investments were $2,000,000,000, or about 24 per cent of loans and investments. As of June 30 1928, total loans and investments were $35,000,000,000, while loans amounted to $24,000,000,000 and investments were $10,600,000,000. Loans amounted to 70 per cent and investments to 30 per cent of this total. This indicates a decrease in the percentage of loans and an increase in the percentage of investments of the member banks to total loans and investments.



Unexpected Results

MONEY market conditions in the past few years have compelled the attention of bankers so closely that some of the aspects of the accompanying developments have not been fully realized. Every one knows that corporations have been using the money market in two ways, as a place to borrow and as a place to lend. But how many bankers have analyzed the new method of corporate financing in terms of liquid banks?

Since 1925 figures have been available for the member banks showing total loans, loans on securities, all other loans and loans other than real estate, as well as total securities of the member banks. These figures reveal some important proportional changes. First, loans on securities have increased by $2,350,000,000, or almost 35 per cent. Second, loans on real estate have increased by $730,000,000, or almost 30 per cent. These two increases in loans account for the major part of the loan increases of the member banks during this period, because loans other than real estate have increased by only $560,000,000, or less than 5 per cent. Total loans increased from $20,655,000,000 in 1925 to $24,303,000,000 in 1928.

Significant Trends

THE figures showing commercial paper outstanding as reported by dealers to the Federal Reserve Bank of New York throw some light on commercial loans. Such commercial paper is, of course, used almost entirely for commercial purposes. It is interesting to note that, according to the Federal Reserve Board, the volume of commercial paper has declined from $820,000,000 in January, 1925, to $427,000,000 in October, 1928, a decline of $393,000,000, or by about 45 per cent.

Loans other than real estate comprise most of the commercial loans of the member banks. It is noted that these loans have increased by about $600,000,000 since June 30, 1925. But in this group is to be included instalment paper which the banks have purchased. Unfortunately, we do not know how much instalment paper has been purchased by these member banks, but it is safe to say that it is considerable and that if $1,000,000,000 is assumed as the total for instalment paper, which seems a conservative estimate, the figure for commercial loans will show an actual decline.

It is to be noted, however, that the proceeds of some loans on securities may be used for commercial purposes. It is also significant that the Federal Reserve Board in its report for 1927 stated that it was apparent that the increase in loans on securities for that year were being used for financing investment transactions, and it may well be true that some of the loans other than real estate may be used for investment purposes. It is evident, therefore, that commercial loans are actually declining.

Economical Financing

THE reasons for this change are numerous. Among the more important may be mentioned the financing of working capital requirements through the sale of security issues, the increase in bank acceptances and a revamping of the policies of many business corporations.

Many business corporations have found it more economical to obtain money for working capital purposes by selling their securities—bonds or stocks—in the market than it would be to secure the equivalent amount of money by bank borrowing. The high security prices during the last two or three years have meant low yields on security purchases to the investors; they have also meant a low cost for obtaining money for business corporations. It was only logical, therefore, that many business enterprises should decide to issue securi-

ties and use the proceeds of these issues for working capital purposes. If the corporation is unable to use all this money in its business all the time there is the acceptance market, the commercial paper market, the bond market and finally, and at present, high call loan market for the corporation to use.

The business corporation sells an issue of bonds or stock to the investment bank. It no longer needs to go to the commercial bank to borrow money and keep 20 per cent of it on balance all the time. It has the money. If secured through the sale of stock, it is not obliged to pay it back. The commercial bank is deprived of a client which has from time to time been borrowing from it. The commercial bank, in turn, must seek an outlet for its funds. It does. But the outlet is not apt to be in high grade commercial loans because they are becoming scarce. The writer was informed of a prosperous department store, located in one of the middle western cities, which had been financing its purchases through bank borrowing. It issued notes for a few million. Obviously, the banks are deprived of an excellent customer.

Growing Competition

IN a way, this movement began in the hectic and troublesome day of 1920-1921. The banks had a large amount of credit in frozen loans. They wanted the corporations to pay these loans. Accordingly, corporations issued bonds at rather high interest rates, used the proceeds of the bond sales to repay the banks and the bank credit was transferred to the investor. It is to be noted in this case that the commercial bankers naturally enough requested their debtors to repay the bank loans with the proceeds of security sales. During more recent years when investment bankers have been looking for issues they have in all probability been urging the business enterprises to issue securities for working capital purposes or the corporations themselves have been approaching the investment bankers with possible issues in mind.

The result has been the growing competition between commercial banks and business corporations in certain fields of the money market, more especially the call loan market. If the business corporation does not have immediate use for the funds obtained from security issues—the main thing is to issue them when they can be sold at low rates whether there is an immediate need for the funds or not—it can put them out on call. But the banks also put funds out on the call market. The result is that business enterprises are competing with the banks in this and probably to a lesser extent in other money markets.

The competition is even keener in some cases. During recent years we have witnessed the growth of investment banking houses which are subsidiaries of large metropolitan banks. The investment banker makes money in selling securities at a price higher than they cost him. One wonders, then, if some of these investment banking subsidiary corporations have not sold securities of business corporations which were good commercial clients of the parent commercial bank or of other commercial banks. It seems quite reasonable to think they have.

Acceptances Are Cheaper

DUE largely to the policy of the reserve banks, an acceptance market has been developed in this country almost overnight. In fact, the acceptance market is propped up by the reserve banks which purchase acceptances at preferential rates and also act as a haven of refuge for acceptance dealers when they are unable to borrow funds from banks at fairly low rates of interest. In such an event, the acceptance houses can sell their acceptances to the reserve banks under a repurchase agreement; and the essence of this sort of a transaction is to make it cheaper for the acceptance dealers to borrow money pending the sale of their acceptances.

The field in which the bank acceptance has been used largely is in financing foreign trade. More recently, however, bank acceptances are growing in the field of domestic trade. Of course, the aggregate amount of acceptances growing out of domestic transactions which may be purchased is limited to 50 per cent of the capital and surplus of the bank, but there are certain exceptions to this limit.

Take the case of a growers' association composed of cotton raisers in Texas. They need to borrow some money to carry their crop. Will they borrow from the bank on a straight commercial loan to do it? Not if they know their business and are able to meet the requirements for acceptances. They borrow on acceptances which are paid later when the crop is sold to an exporter. And they borrow on such acceptances because it is cheaper to do so.

Why Pay 6 Per Cent?

WHEN the buying rate for ninety-day acceptances at the Federal Reserve Bank of New York is 4½ per cent, which has been the rate in recent months, why pay 6 per cent or even more in some cases for the same "accommodation"? This is a growing practice and as a result the banks are getting a commission on that business, if they are doing it on a ninety-day basis.

But the fact remains that the members of the association are placing some of the money derived from the sale of cotton in their local banks. The banks not finding an outlet for this money in the form of commercial loans, must utilize it in other ways—real estate loans, instalment paper, bonds, call loans and the like. It is, of course, true that accepting such drafts is a commercial banking function but the fact remains that the use of such acceptances, especially when they command preferential rates, makes it necessary for the banks to look elsewhere for an outlet for their deposits.

Many business corporations were saved from bankruptcy in 1920-1921 not by the skin of their teeth but by the presence of substantial surpluses which were built up out of earnings and not due to accounting juggling. During the period of prosperity they prepared for the period of adversity. At a time when profits were large they had enough vision to prepare for the time when red ink would have to be used. And their survival is the result.

Not Locked Up

THE lesson has in many cases been learned. Many business enterprises are following it at the present time. They are not paying out all their net earnings in dividends. On the contrary, many of them have built up, or are building up, huge surplus accounts not to mention reserves—open or secret. But the money made and not paid out must be used in some manner. It is not locked up in a strong box. How to use it becomes the question. In some, perhaps many, cases it can not be invested advantageously in the business because there is a law of diminishing returns. Put it in such form that it can be realized upon when there is an emergency. Bank acceptances, United States government bonds, commercial paper, and always the call loans, are available.

This policy of not paying out all profits as dividends makes it less necessary for the business to borrow from commercial banks. The business corporations have their investments in liquid form. They can, if necessary, sell them. Hence, bank loans suffer.

Small inventories and more rapid sales has become the keynote of much more efficient retailing. The small inventories are desirable the chances for loss through price declines are correspondingly reduced. But how maintain small inventories? That is the question when many retailers are located miles from the wholesalers. Improved methods of transportation have helped greatly. The figures show that the movement of freight has been speeded up to an unusual extent. Railroads have found it profitable to do so because it reduces their rolling stock and gets business. But the small inventory problem has been solved in a different manner in many cases. The auto trucks belonging to wholesalers cover a large amount of territory in and near the large cities; and we are fast becoming an urban country.

Steady Decline

WHAT does this have to do with commercial loans? Simply this: Smaller inventories and more frequent sales mean smaller investment and reduces the amount of bank loans necessary to conduct such businesses. If John Doe carried a stock of goods valued at $5,000 and turns it over five times a year, his total sales are $25,000. If he carries a stock of goods worth $10,000 and turns it over two and one-half times a year, his sales are also $25,000. But there is this difference from the point

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Style Menaces the Balance Sheet

By JOHN ALLEN MURPHY

Fashion's Foibles Appear as Fundamental Financial Factors. Style Causes Constant Evolution in Industries Compelled to Give People What They Want. Business Concerns Feel Effects Through Rapid Turnover and Larger Supply of Surplus Funds.

THE most charitable view that can be taken of Captain Carey's delay in sending out an S O S, when his ship, the Vestris, was listing badly, is that he could not believe the evidence before him. He had been a mariner for forty years. During all this time no vessel with which he was connected ever sank. Every ship that he ever commanded had always been brought safely into port. The Vestris, itself, had seen many years of service. It had weathered every storm and triumphed over every threatened disaster. Its captain undoubtedly had confidence that the ship would outride its present menace, just as every ship of his forty years' experience had invariably come through.

We can well believe that this was Captain Carey's attitude, especially since it is the attitude that many a captain of a commercial enterprise takes when his business starts to list dangerously. The companies that they head have always weathered competition. Sales have been increasing with monotonous regularity. The prestige of the organizations have mounted steadily. They have always made money. They have never passed a dividend.

Perhaps an executive in this position should not be blamed for feeling that his ship will not sink. It has withstood every crisis and now that it is supposed to be more strongly entrenched than ever, there is no reason to believe that any storm that may suddenly arise can seriously damage it.

Fads of Fashion

FADS and fancies of fashion cannot be disregarded as passing whims. Business and industry must not only adapt themselves to new trends but they must read accurately the signs of style changes if they are to keep their markets. Style is intruding itself upon the banker as an element to be considered in granting loans and as one of the causes of the surplus funds which has lessened the demand for bank credit to finance business.

Without Warning

YET businesses of this sort are frequently the victims of sudden distress. Without warning, something happens that causes the craft to list and if the S O S for help is not sent out soon enough, the good old enterprise that was always the pride of its officers and the joy of its stockholders may sink.

What is the origin of these unexpected crises? Why does a business that was always well managed suddenly get into trouble? It is easy to understand the failure of a concern that has been going down hill for years. But who can explain the almost overnight collapse of a company that has long had the confidence of banks, of investors and of the consuming public?

It has been my privilege to analyze the records of several companies that were once extraordinarily successful but that lost their grip all of a sudden. I know of two hosiery manufacturers that were doing a world-wide business. They had thousands of dealers, and millions of customers and for many years enjoyed enviable prosperity. Almost without warning these concerns went out of existence. I know of manufacturers that made petticoats, buggies, knitted goods, fly-nets, shirtwaists, Morris chairs, coffee grinders, organs and numerous other articles that suffered the same fate as the hosiery manufacturers. I am familiar with packers of food products whose position in the trade was once unquestioned. Today these concerns are hanging on by the skin of their teeth. I know hardware stores, hotels, department stores, furniture dealers, grocers and business men in practically every field of retailing that have allowed their enterprises to slip from the velvety beds of success to the ragged edge of failure.

Many explanations might be offered for these failures, but the chances are that none of them would get at the primary cause. The reasons openly ascribed for the collapse of a business are, as a rule, only superficial explanations. The mischief-making influences that may be at work in a concern seldom reveal themselves on the surface.

Became a Real Menace

WHEN we dig deep into the history of these fast-slipping companies we will find that usually they took their first backward step when they failed to appreciate the importance of some little thing. At least it may not have seemed of much importance at first. For instance, twelve or fifteen years ago when a few down-at-the-heel individuals began to run jitney buses, the traction operators looked on with much amusement.

"What can these fellows do with their second-hand automobiles?" they smilingly inquired. "If they do catch an occasional passenger, they won't get him the second time. No sane persons will part with their coin to ride in a bumpetty tin can."

Yet the traction folks soon saw this despised competition develop into a real menace. The number of buses increased with alarming rapidity. It was not long before they began to cut seriously into street car revenue. In a few years more many of the traction companies realized that they, too, would have to run buses or else go out of business. So today we find most of the street car operators running a line of buses as a supplemental transit system. In some cases the bus business is the more important end of the system.

Whenever possible business men should try to anticipate developments that will be likely to affect their enterprises materially. Even if they cannot foresee the coming of these changes they should at least be in a constant state of readiness to meet them. Certainly no new development should be despised. It ought to be watched and its importance carefully weighed. If it seems promising, the company should prepare to adjust itself to this new condition, even though it may sometimes mean getting into an entirely different type of business.

A Mysterious Influence

THE ability to keep a business in step with progress and to meet changes, whether they are dictated by competition or by fashion, and to meet them no matter how fast they materialize, requires executive capacity of rare skill. The company that has this quality in its management possesses an asset that may be more valuable than its plants, its equipment or its inventory. Plants, machinery and merchandise may be wiped

out, but the ability to keep in step with fashion cannot be readily destroyed. Management that has this knack will not have to wait long for a plant or for equipment.

This mysterious influence that is making a veritable topsy-turvy land out of the present-day business world is commonly known as Fashion. That comes about as close to it as it is possible to get, although the term is not inclusive enough. This all-powerful influence is really a combination of fashion efficiency, progressiveness, education and impatience. It is true that fashion is probably the strongest motivating force in the formula. At the same time we should realize that the mere desire for change is not the sole goal of the public's ceaseless demand for new things.

The standard of living is constantly rising. People are not only constantly reaching out for more luxuries, but they also want better necessities. For example, they regard a heating system in the home as a necessity. They no longer have to be sold on the advantages of having a heating system. What they want now in a heating plant is greater efficiency, uniform heating, less work and, other things being equal, a lower cost of operation. This explains the drift from coal to oil, to gas and to other fuels.

Fashion Dealt a Blow

TWENTY years ago if someone said that the coal business would become the victim of what we are pleased to call fashion, he would have been set down as simple-minded. Yet today coal men, themselves, are deploring the fact that they have failed to keep up with the times.

Fashion has dealt a blow to the soft coal industry also. Instead of the demand for bituminous coal increasing with the growth of population and of industry, quite the opposite has been the case. In the generating of electricity, for example, the amount of coal used has dropped in eight years from 2.4 pounds per horse power hour to 1.37 pounds. This decline is due to greater efficiency in the use of coal. The railroads and practically all other big users of coal have similarly been able to get much more out of each pound than they did ten years ago.

That incident shows what the efficiency factor in the desire-for-change formula is doing to coal. New vogues are also having their effect. Oil, gas and hydro-electric power are cutting in on the bituminous market tremendously.

Noted for Its Beauty

WHEN a business is hit by a fad it is a difficult matter to fight the invader. A manufacturer cannot stand out against style. The only way he can conquer it is to give in to the new vogue. The Indians used to believe that the strength of a fallen foe entered the body of his conqueror. Fashion works on just the opposite principle. Oppose it and it will ruin you. Succumb to it and it will begin working for you.

Everyone knows that Duncan Phyfe was one of the greatest furniture makers that ever graced that industry in this country. The earlier work that he turned out, from about 1795 to 1815, is noted for its beauty, simplicity and dignity. It is that work on which the reputation of Phyfe securely rests today.

It is not so well known that from about 1815 to 1830 the great Phyfe devoted his efforts solely to the manufacture of the ugly French Empire furniture. A still greater blot on his record, however, is that during the last ten years of his life he engaged in the production of the atrocious Victorian period stuff.

Many have asked why such a wonderful craftsman should have prostituted his talents by making the hideous later period furniture. The answer is that he had to. Being a business man, he had to give the people what they wanted or face bankruptcy. The taste of the public suddenly turned from the beautiful Colonial furniture to the French Empire craze, and after about twelve or fifteen years of that the Victorian rage swept into popularity. A manufacturer who tried to give people Colonial furniture when the wanted Victorian gimcracks would not have remained in business long.

The Sure Way

THE successful business men of today are following in Duncan Phyfe's footsteps. They are giving people what they want, even though in doing so they may be taken far from their original product. That has been repeatedly demonstrated to be the sure way to deal with the competition of new vogues or new materials.

For example, Studebaker Brothers foresaw that they could not save the wagon business. So they accepted the wagon's rival—the automobile—and began to make cars in addition to wagons. By the time the wagon business petered out the motor car company was nicely established.

The old firm of Timken made axles for wagons and for buggies. They saw no reason why they should not also make axles for automobiles. Look where the company is now! Fisher Brothers made carriage bodies. They, too, perceived that the automobile was destined to displace the carriage. Hence they entered the new field. Today they are one of the most successful and most prosperous commercial organizations in the entire world. Had they elected to stay in the carriage business they would have eventually trailed out of business and would now be forgotten, just as many other thriving carriage makers of that period have.

No Easy Task

THAT policy of accepting the invader on his own terms is now the standard method of dealing with Fashion. The silver manufacturers, for instance, have lately found it no easy task to keep their products up to the standards that fashion demands. For many years silverware has been confined altogether to sterling and plate. If a concern turned out both sterling and plated ware, it was delivering what the market required and its line was regarded as complete in the trade.

In recent years, though, several new vogues have crept into the industry which have given the old silver lines a lot of unlooked-for competition. The first of these was a demand for a knife with a steel blade. The silver blade has never been a good cutter. People began wondering why a steel blade could not be attached to a silver handle. Someone finally met this demand with a combination silver and steel knife.

Pewter Comes Back

THEN along came the color fad. Every product, from axes to zithers, is being put out in flaming colors. The silverware manufacturers were obliged to get in on this vogue.

In the meantime a new material for plating metals has come into fashion—chromium. While chromium-plating resembles silver-plating, it has certain advantages. For instance, it does not tarnish. Twenty-five years ago the silverware people would have fought chromium to the last ditch. Not so today. They are adding chromium-plated ware to their line and are featuring it as a companion to silver-plated goods. The public is privileged to take its choice.

Still another material has come along to add to the problems of the silver folks. It is pewter. Pewterware was all the go back in the days of our great-grandparents. It is staging a strong come-back. Instead of whining about the return of this old competition, the silver manufacturers are giving it a welcome. Some of them have added pewterware to their family of products.

Styles in Soap

THAT is a typical method of dealing with the competition of fashion. The same plan is followed by numerous other industries. For example, there is the laundry soap business. Our grandparents used to manufacture their own soap. It was a soft, semi-liquid substance. Home manufacturing of soap was discontinued, however, when manufacturers began to turn out a large bar of good laundry soap at such a low price that no family could bother to make its own soap.

A tremendous industry was built up on laundry soap. Some of the largest commercial enterprises in the United States are in the soap business. The industry was well stabilized for many years, the competition being on the size of the bar, its composition, color, etc. Into this fairly placid situation a bomb was tossed by one of the older soap houses. The bomb consisted of a new kind of laundry soap. Really, it was nothing more than the old soap cut up into flakes or chips.

The idea took hold. Presently most of the big companies were producing some sort of chopped soap. Again the industry was stabilized with about half of the business going to cakes and the other half to flakes, with the demand gradually favoring the latter product slightly.

Then one day one of the oldest soap

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Making Capital Loans Behave

By ROSCOE MACY
Cashier, Bank of Lynnville, Iowa

How a Country Bank Can Make Capital Advances Successfully. Liquid Condition of Bank Assets Is First Essential. Simple Test of New Loan Is Absolute Confidence of Redemption Upon Maturity. Iron-Clad Security Requirement of Full Protection.

IN a recent informal discussion of the banking troubles which developed a few years ago in the Middle West, the head of the banking department of an important agricultural state mentioned four principal factors as primarily responsible for the diseased banking conditions with which he had had to deal during his term of office. First on the list was the practice of making capital loans.

Almost any banker will recognize at once the class of credit referred to under this denomination. The "frozen" loan, which has to be renewed at maturity after maturity, perhaps with an occasional principal payment — the loan which seems to be dependent, for final liquidation, upon the somewhat mythical "better times" which may never appear —this class of credit is all too familiar to bankers, even in regions which have not suffered over-severely from adverse economic developments.

Such a loan is commonly referred to by its owners as "good, but slow"; the bank examiner shakes his head dubiously at the assurance that it "will be paid all right some day"; he scans the property statement, and observes that a portion of the debtor's current liabilities would be dependent, in case of immediate liquidation, upon the possibly problematical value of fixed assets—and his report goes in with a row of significant question marks opposite this line. He knows, as do most bankers, that every such credit line must cripple, to a certain extent, the liquidity of the bank, and his comment: "To be reduced as speedily as possible," is likely to be followed, at the next examination, by a request for a charge-off, unless material improvement is clearly evident.

Shade Off Gradually

ON the other hand, a moment's thought will convince anyone that capital loans as a class cannot be indiscriminately denounced as unfit objects of bank investment. The bonds upon which banks are coming to rely more and more for secondary reserves are nothing in the world but capital loans; so also are the real estate mortgages in which many banks are in the custom of investing a portion of their time deposits. These are clearly capital advances, and yet they are as clearly admissible for bank investment.

At the other end of the line, of course, we find such securities as trade acceptances, and loans upon merchandise in transit to buyers, or warehoused staple commodities, which are clear cases of "current," as opposed to "capital" loans. Between these two extremes are various types of credits which shade off so gradually in one direction or the other that it is impossible, in practice, to fix definitely the line which separates one class from the other. A particular loan will often be of a mixed character, possessing some aspects of the capital loan, while in other respects it may present all the advantages of a current advance.

Five Requirements

FOR the granting of a capital loan Mr. Macy lists these requirements: (1) an absolute understanding that the borrower runs the risk of a demand for full liquidation at maturity; (2) a borrower who is debt-free with cash capital for security; (3) who has proved his capacity to manage his finances; (4) whose household is conducted on a basis of thrift and economy; and (5) the maintenance of the bank's margin of security constantly at an adequate level.

Simple Test Needed

IT might be, for example, that a well-established manufacturer, with little or no current indebtedness, would desire to anticipate his current season's production "run" for a month or two, by borrowing at the bank for the purchase of improved machinery. Or a farmer, out of debt and ready in a short time to harvest a crop, might wish to erect a silo, or modernize a dairy barn, or purchase a tractor, the improvement to be paid for when the crop is marketed. Other conditions being satisfactory, either of these men should be entitled to call upon his bank to finance his project, despite the fact that the loan in each case would be technically a capital loan.

It is clear, then, that practical bankers cannot afford to place an absolute ban upon capital advances as such. Some of them are desirable and deserving of bank support. What is needed then is a simple test which may be applied to any contemplated credit advance, to determine its suitability for the particular lending bank. There is such a test, easily applicable by the conscientious banker who has the status of his institution at his finger-tips, as it is assumed every good banker will have.

Its Sobering Influence

LET him imagine his bank facing a persistent run, which is to every appearance beyond control, and likely to be continued to its logical conclusion. This is something that might conceivably happen to any bank, and the possibility is one which the country bankers of the Middle West have had to keep constantly in mind during the past few years. We can vouch for its sobering influence upon the bank executive who has a questionable loan under consideration, and who is for any reason tempted to dally with the idea of granting the credit.

With the picture of a run on his bank before him, the banker will first marshal his assets in the order of their capacity for paying deposits. Cash on hand is, of course, a definite quantity, and will pay deposits dollar for dollar as long as it lasts. Sound, seasoned bonds have a market value which can be at any time calculated within a point or two. First mortgages on farm land or income-producing city property, which meet the legal requirements of insurance companies and savings banks may also be marketed at a price which may be calculated within a point or so at any particular time, although the marketing of mortgages will require a certain period for investigation of the security by the purchaser.

Cash and readily marketable bonds, then, must be relied upon to meet the demands of the panic-stricken depositors who appear at the grill during the first day or two. For the banker who is will-

ing to invoke the regulation requiring a notice period before the payment of time deposits (and there is no reason why a clearly solvent bank should not observe this rule in case of a run) the question will be, how far his cash and marketable bonds will go toward paying off demand depositors. Time depositors can be required to await the marketing of real estate mortgages, and it may be pointed out in passing that a great many of these, if conservatively made in the first place, will be readily exchangeable to many of the larger holders of time deposits.

Must Meet the Ideal

THE remaining inquiry is an immensely important one: Are the bills receivable in the note-case on which the bank may be sure, beyond reasonable doubt, of prompt payment (if necessary) at maturity, sufficient in amount to meet the remainder of the bank's deposit liabilities not already provided for? Putting it another way: Could you in the case of your own bank, after making the provisions already described, conscientiously and with reasonable safety give your personal guarantee of the payment at maturity of bills receivable sufficient to pay the balance of your bank's deposits? Bankers who can answer these questions conscientiously in the affirmative are bankers, in the best sense of the word, and they and their communities are to be congratulated.

Of course, not all, and possibly not even a majority of banks are in this position today. But the mistakes that have been made in the past are now recognizable as such, and there can be no excuse for making them all over again. New loans should be all the more carefully scrutinized, and rejected forthwith unless they meet the ideal which has been pointed out.

This, then, is the test by which the new loan must stand or fall: Can you in case of need send it off to your correspondent or to the Federal Reserve Bank, and forget about it, in confidence that the maker will redeem it at maturity if you do not?

Faithful Boosters

OF course, the calculations which have been described can only be made somewhat roughly, and local conditions will enter in to vary each individual case. Public monies, for example, may to a certain extent be classified as time deposits, because they are usually safeguarded by legal provisions which make it unnecessary for the custodians of such funds to stand in the depositors' line and demand payment of their balances in cash. Advances which comply with the ideal pointed out may "go bad" later, as they sometimes have a way of doing, but the capital and surplus of the well-conducted bank will provide a sufficient safety fund to care for such unforeseeable contingencies.

It is probable that we country bankers in the farming communities are more frequently called upon for capital loans than are our brethren in the cities. We used to make them, too—the reprehensible kind as well as the more acceptable sort. And some of the young fellows whom we thus "set up for themselves" have later come to be our best customers and most faithful boosters. But we learned a few years ago the danger inherent in our failure to distinguish carefully between capital and current advances, when many of our young protegees were caught in the well-remembered deflation movement, and found at the end of the year that the income out of which they had expected to finish paying for their equipment had shrunk until it was insufficient in many cases even to meet the expenses of the year.

Assuming a Grave Risk

IN our own bank, we still receive applications for credit from boys who wish to start farming on their own hook, and it may surprise the reader, after what has been said heretofore, to learn that we are still granting many such applications. But we are very careful nowadays to provide in advance for the contingency which we too often overlooked in the past, and out of the development of which so many of our troubles arose.

Our first care is to impress the applicant with the fact that in borrowing at our bank for a capital investment, he is assuming a grave risk which is his own and not ours, namely, that conditions may require us to enforce payment promptly and in full at maturity. We explain to him that we cannot make a loan of this class at all except under certain very rigid conditions, and that our duty as custodian of our depositors' money will require us to observe those conditions strictly, however hard it may prove to be upon him, the borrower. In making such a loan, therefore, we must require a type of security which will assure us positively of the repayment in full of our note at maturity.

Oftentimes, the young aspirant for credit will have a relative or two who are in good circumstances and willing to help the boy, but who prefer that he should deal direct with the bank for his credit. We make many of our capital loans on the security of such joint signatures of relatives, where the latter are almost or wholly out of debt, and able, if necessary to pay the note at maturity without crippling their own operations. In such cases, the joint makers of the note are as carefully impressed with the conditions under which it is made by us, as is the principal obligee.

Due After Harvest

BUT occasionally there will arise a case in which the young man has no relatives or friends who can furnish the sort of guarantee we require. Even in such a case, if we consider the applicant worthy, and if he has demonstrated his ability to manage wisely and to save money, we are frequently able to grant the application. In such a case, we are particularly careful to explain to the applicant that he is assuming a speculative risk, which risk he must bear alone, and not ask us to shoulder any part of it.

If he still wishes to take the chance, and has enough money of his own to invest to furnish us with a good margin of security, we will make him a loan, due after harvest, on the security of his farming equipment. This would not be workable, but for the fact that the institution of the public farm sale has established a reliable market for standard farm equipment, and there is always capital available for the purchase of bargains, even in times of financial depression. The understanding in these cases we make absolutely clear—that we will positively enforce payment in full at maturity, if it seems advisable, and at any time before maturity that we deem ourselves in danger of a loss. Our mortgages are drawn with a clause permitting this, and this clause is pointed out to the borrower.

Resisting Temptation

IT is when misfortune, such as sickness, or accident, or adverse markets, befalls the worthy young fellow, that our system meets its real test. We have then to guard against the temptation to let the line ride along, even though our margin of security is threatened, in the hope that our borrower will recover the lost ground. It is vitally important that any such temptation be resisted.

In the ordinary season, we require a 100 per cent margin of security based on new machinery, young horses, and other lines of equipment equally desirable and salable. Less desirable types of equipment necessitate a greater margin. In the case of an unfortunate borrower such as has been suggested, we must perforce demand the reinstatement of our margin of security, or the liquidation of the line. This insistence on the continued good standing of the credit line can be accomplished without incurring the ill will of the borrower, if the proper foundation has been built at the time the credit is established.

Usually, however, we have found the borrower, at the maturity of his note, possessed of a good stock of marketable farm products. In these cases, he will often be flushed with his first success, and desirous of expanding his scale of operation with the profits of the year's work. Here, also, we must be careful, and it has been our practice to require a substantial reduction, even in seasons when we have an oversupply of credit available. This helps the borrower in two ways; it teaches him to respect the maturity date of his obligations, and if accompanied with the proper explanation, it warns him of the danger of too rapid expansion. He will not be so likely in later years, to keep all his eggs in a single basket, but will pursue the sounder policy, even after his indebtedness is paid, of laying by a portion of

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The Condition of Business

Industry and Trade Make Promising Start. Forecast Another Year of Large Volume and Satisfactory Earnings. Unequal Distribution of Prosperity Prevails. Firmness in Money Rates to Continue as Seasonal Demands from Agriculture Develop

INDUSTRY and trade have made a promising start this year. Fundamental conditions are sound. Already a number of characteristics have definitely appeared which indicate that 1929 will follow much the same course as did 1928 and 1927. Manufacturing in the basic lines will continue to be heavy at around the record levels; distribution of goods will be active and hand-to-mouth buying will prevail. Lack of uniformity in prosperity among different lines has become a familiar feature in business, and there are again taking place recessions in some groups and improvement in others.

Corporation annual reports that have been published to date show, for over five hundred companies, combined earnings in 1928 about eleven per cent better than 1927. Industrial and trading concerns are slightly above this average, while railroads, power and light, telephone and telegraph companies are slightly below. Marked gains occurred in earnings of automobile and accessory companies, steel, machinery, chemicals and meat packing, while decreases were recorded in the apparel industries, cotton, rubber and sugar. Food products and merchandising continue their steady growth.

Money Rates Harden Again

MONEY rates have again hardened and the abnormally high rates that have prevailed for several months seem likely to continue well into the year. Seasonal credit demands from agriculture will develop soon, while borrowings against securities are still rising to heights that were undreamed of a few years ago. Federal Reserve Banks and member banks are in a strong position, however, and recent engagements of gold from abroad will serve to relieve the credit tension temporarily. Our "money problem" would disappear if investors throughout the country would for a few months devote income to paying down loans, but instead the disposition is to further expand commitments on borrowed money. Increase in the bankers acceptance rate to over 5 per cent, and possibility of another advance in the rediscount rate both contain rather serious implications.

Meanwhile the favored industries are active—steel, automobiles, implements, machinery and foodstuffs and some textiles, also coal. Building construction has slowed down slightly as compared with last year. Retail trade is active, with greater attention than ever before being devoted to inventory control, expense budgets and credits, while wholesale trade finds its radius of operation narrowed by chains and consolidations. Later in the year the pace of production and trade may become less rapid but all indications point to a good economic era (not a new economic era) of tremendous volume, marked selectivity, and satisfactory earnings to the large and well-managed organizations.

Corporation reports to stockholders that are being published show that earnings for the full year 1928 were closely in line with the indications of quarterly and semi-annual statements. A tabulation of over five hundred reports issued to date shows aggregate net earnings in 1928 of $3,303,000,000 compared with $2,952,000,000 in 1927, representing a gain of 11 per cent. Even allowing that publication of the less favorable reports is delayed as long as possible it appears likely that final figures will almost exactly agree with our estimate of a 10 per cent gain, made several months ago.

Following is the classification by major industrial groups.

American Corporation Earnings

Net Profits—000s Omitted

Number	Industry	1927	1928
2	Agricultural implements	$8,635	$10,489
4	Amusements	8,924	14,601
15	Apparel, etc.	13,262	10,537
4	Automobiles	283,950	335,262
7	Auto accessories	6,730	7,345
6	Building materials	8,012	5,041
13	Chemicals	76,118	99,959
2	Coal mining	Def. 195	218
7	Cotton	5,605	2,086
2	Electrical equipment	6,011	17,983
8	Flour and bakery	57,552	61,342
8	Food products misc.	37,021	41,130
2	Heating and plumbing	589	1,171
2	Household equipment	14,912	16,861
8	Iron and steel	124,189	161,216
3	Leather and shoes	4,370	4,043
6	Machinery	4,659	6,316
5	Meat packing	15,464	31,268
10	Merchandising	84,779	91,041
2	Petroleum	2,537	5,092
6	Rubber	19,077	10,548
3	Silk	590	432
13	Sugar	10,901	5,488
6	Tobacco	55,222	56,688
2	Wool	Def. 43	238
10	Miscellaneous	9,465	10,560
156	Mfg. and trading	$858,336	$1,006,955
185	Railroads	1,085,917	1,183,000
93	Tel. and Tel.	233,435	255,265
95	Other Pub. Util.	775,177	858,400
529	Grand total	$2,952,865	$3,303,620

A table so broad as the above gives a condensed picture of American business that clearly reveals the prosperous lines. Automobile manufacturing made a large gain, due mainly to General Motors Corporation, while auto accessories, steel and machinery also showed improvement.

On the other hand losses were suffered in the apparel industries, building materials, cotton, rubber and sugar. Meat packing profits last year were double the year previous. Merchandising continues its steady gain.

Of the 156 corporations making up the manufacturing and trading group the aggregate earnings in 1928 were 17.4 per cent ahead of 1927. The 185 Class I railroads gained 8.9 per cent but were still slightly below the record 1926 year; 93 telephone and telegraph companies gained 9.4 per cent and 95 utilities supplying light, power, etc., gained 10.7 per cent.

Industrial Production Active in January

A CONTINUED high rate of production during January occurred in the basic industries, of which the most favored lines were iron and steel, automobiles, implements, and machinery. Cold weather helped the coal industry. Copper mining was active under the stimulus of large foreign and domestic takings. Oil-well and gas supplies, electrical goods and radio materials were bought freely. Shoe manufacturing maintained earlier activity, rubber footwear sold freely, and rayon and silk manufacturing were at high points. Flour milling is stimulated by firmer wheat prices, and good furniture buying is reported. Wholesale dry goods slackened somewhat during the January clearance sales, and building construction is hampered by snowstorms and extremely cold weather.

Whether building can continue during 1929 at the record volume of last year may be an important factor in maintaining American prosperity. Although complete statistics now available show that contracts awarded for the full year 1928 aggregated 5 per cent above 1927, it is significant that December, 1928, was 9 per cent below December, 1927. In the Northwest occurred the most severe lessening of activity, the December total falling 74 per cent below the previous year, while the Central West was 27 per cent lower, the Southeast was 31 per cent lower, and the Middle Atlantic states were 14 per cent higher. Doubtless the continued tightness of the money market is making itself felt by postponing new building construction that is not already under way.

Further advances in scrap steel prices, and increasing pressure for shipments of finished steel, particularly bars, automobile body sheets and strips, stand out in the market developments of the

month. Rail mills have also increased production, and sizable orders for railroad cars and locomotives have been placed, as well as tubular goods for oil-well and gas installations.

Automobile manufacturers spoke of the annual exhibition in New York last month as a huge success, and repeat their conviction that the current year will witness records in production even surpassing 1928. Possible price cutting and revision of manufacturing schedules downward to sane levels, which we suggested last month as among the possibilities, have already begun to exhibit themselves. More mergers in the industry will doubtless be found advisable during the next year or two.

Retail Trade Active but Distribution Problems Acute

ALTHOUGH there has not yet been time for first quarter trends in retail trade to be wholly shaped, definite evidences of expanding commercial operations have appeared. Early developments have been mainly favorable and constructive factors have retained their force.

Activity has been most pronounced in centers where there has been the stimulation of low temperatures, while distribution has been retarded in localities where unseasonable weather has prevailed. Mercantile collections reflect the unevenness of conditions, but the rise in commercial failures during January was no more than normal for that month. Elements with widely disturbing effects are conspicuous only by their absence.

Hide and leather prices have again weakened, but prices of other commodities have firmed up and the average level shows little change. The further advance in copper to the highest level attained in several years is especially noteworthy, and scrap steel prices have risen moderately.

Efficient distribution today requires much more than care in collections, which formerly was the principal point watched. Sales and collections must be budgeted, but operating expenses must be carefully budgeted, also. Stocks must be inventoried carefully, purchasing must be controlled, slow moving or obsolete stock must be cleaned out. Credits must be granted only upon definite and complete information, and must be limited in amount, and followed up promptly for payment. Accounts must be analyzed, to use a term from the chemist, both quantitatively and qualitatively.

Chain store sales published to date show for the full year 1928 an increase of about 18 per cent over the previous year, but many of the larger organizations have not yet reported, and it is not likely that the 15 per cent gain which we suggested last month will be exceeded.

Any independent retailer who made a gain of 15 per cent in sales last year is to be congratulated. He has an advantage over the chain store in his better acquaintance with the customers and their needs, and he can also offer them delivery service and credit terms, although many chains are now offering these services also. The chain, however, has an advantage in its control over inventory and accounting. Many a retail druggist, for example, can tell off-hand what any one of fifty thousand drug and chemical preparations is used for, what it costs and what to charge on a prescription, yet cannot tell how much he owes in accounts payable (which have not all been reconciled for months) or how much he has purchased since his last statement.

Wholesalers continue to have their radius of operation curtailed by the growth of chain store systems and the consolidation of large department stores. Wholesale dry goods, groceries, shoes, hardware, all tell the same story—their 1928 statements showing a small decrease in sales, a sharp drop in net profits and a return of perhaps 5 per cent on invested capital. And borrowing more money at their peak than in former years when they were handling a larger volume of business.

Cases have even been revealed where they marked up fixed assets, crediting P. & L., in order to show their dividend earned! Many wholesalers are in a difficult position in that they have neither their own brands, nor manufacturing facilities or technique, nor retail outlets. Their functions can be easily duplicated.

Money Market Tightness Not Yet Explained Away

THERE was some easing in money rates after the year-end settlements, but during the latter part of January rates hardened again and stand in marked contrast with rates prevailing in February, 1928. It will be recalled that last year rates generally were easy until May or June. Following are typical quotations in New York:

February	1929	1929
Call loans	4½	8
Time loans, 60-90 days	4⅜@½	7½@¾
Commercial paper	4	5¼@½
Bankers acceptances, 90 days	4	5@⅛
Call loans against acceptances	4	7
Federal Reserve rediscounts	4	5

The bankers acceptance rate is not the best index of the money market; although it is much more basic than call money, it does not reflect the free working of supply of and demand for commercial funds as does the going rate granted to customers, or even commercial paper. For several years the Federal Reserve Banks, in their efforts to develop and broaden the discount market in the United States, have made preferential rates for the purchase of bills and the market rate is therefore in a sense artificial or pegged.

Yet the advance in rates on acceptances during January may have implications more important than appears on its face. An increase in the rate during the month from 4½@¾ per cent for ninety-day prime bills to 5@⅛ shows that the Federal Reserve Banks are not supporting the bill market to the former extent. Member banks have the alternative of purchasing bills, even at a sacrifice compared with other classes of loans, or neglecting bills and allowing the American acceptance business that has been built up over the last few years to go elsewhere.

Some experts have interpreted the rise in the bill rate as forecasting an advance in the Reserve Bank rediscount rate, since in the past the rediscount rate has fluctuated around or slightly above the bill rate. An advance in the rediscount charge at this time would by no means come as a surprise, and it is well known that the Reserve authorities are desirous of curbing the further expansion of credit into brokerage loans, nevertheless they do not wish to alter the rate if this would seriously embarrass the Bank of England and other foreign banks.

Most central banks are having difficulties enough in maintaining their gold standards in the face of somewhat unsatisfactory industrial and trade conditions, unemployment, etc., without having American money rates bid so high as to attract gold away from the foundation of their credit and currency structure.

The "money problem" would disappear if the individual investors throughout the country would, for a few months, use their income to pay off loans and acquire their securities outright, instead of making additional purchases on borrowed money.

Banking Situation Strong Despite Increase in Brokers' Loans

AS is usual after the turn of the year, loans of member banks were liquidated materially, although the decrease of some $600,000,000 in commercial loans and the disposal of some $400,000,000 investment holdings was offset by a further increase of $300,000,000 in loans secured by stocks and bonds.

Those who had expressed concern at the falling ratio of the Reserve System in December were cheered by the improvement in its position that took place in January. For the entire system the ratio of total reserves to currency and

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Major Financing in January (*See page* 833)

Issue	Amount	Rate	Due	Price	Yield
Allegheny Corp. col. tr. conv. deb	$35,000,000	5	1944	100	5.00
Railway Express Agency, Inc. serial A	32,000,000	5	1931–44	100	5.00
Assoc. Gas & Elec. Co. conv. deb	25,000,000	4½	1949	95	4.90
Amer. International Corp. conv. deb	25,000,000	5½	1949	105	5.10
Ches. & Ohio Ry. ref. & imp. A	27,784,000	4½	1993	95	4.74
Pittsburgh Coal Co. s.f. deb	20,000,000	6	1941	100	6.00
Cigar Stores Realty Holdings, Inc. s.f. deb. A	10,000,000	5½	1949	99¾	5.50
Milwaukee Elec. Ry. & St. Co. ref. & 1st B	10,000,000	5	1961	100¼	5.00
Republic of Cuba serial	10,000,000	5½	1932–33	100	5.50
Kentucky Utilities Co. 1st I	8,150,000	5	1969	99	5.00
Penn-Ohio Edison Co. deb. B	8,000,000	5½	1959	96½	5.75
Prov. of British Columbia s.f. deb	6,417,000	4½	1969	94.69	4.80
Public Service Subsidiary Corp. deb. A	6,000,000	5½	1949	97	5.75
Insull Utility Investments, Inc. deb. A	6,000,000	5	1949	100	5.00
Fuller Bldg., N. Y., 1st s.f	5,000,000	5½	1949	100	5.50

Small Favors Build Big Banks

(*Continued from page* 746)

say that, for if it were not that our service is almost always helpful, we wouldn't have won the mother in the first place."

Apparently this banker is a great believer in a bank's chances of getting business through the efforts of its friends, as he goes on at some length discussing the influence which a bank's customers and friends have over those who are not customers.

The concluding remarks of this banker show an exceptionally good understanding of the importance of maintaining a high degree of efficiency at all times. He says: "When a friendly interest is taken in a customer's financial problems and helpful suggestions are made as to a possible solution, real friends for the bank are made then and there. One real friend means, usually, a channel through which new business will flow into the bank. The possibilities in this regard are unlimited."

Shook Hands With Him

"BOTH customers and strangers like to be recognized," says another banker. "By this I mean to have a sort of a friendly interest shown in them."

Following this introductory paragraph he proceeds with an actual case in which he played a part. He gives this case in order to show the efficacy of a cordial greeting of "good morning" or "how are you today?"

Some two years ago, a prominent dentist moved his account from another bank to that of this banker. Following their custom the officers of the bank endeavored to greet him as soon after he came in to the bank as was proper, the same as they did other customers. When appropriate some member of the staff shook hands with him. One day he volunteered this statement:

"I want you to know that I have never been so well satisfied with my banking relations as I am today. Before opening my account with you, I did business with another bank near here. Although I carried an account for several years, I scarcely knew a person in that bank, and they never seemed to recognize me. I guess it was because I never gave them any trouble. Things are as different between this bank and that one as night and day are different. I like the friendly atmosphere of this bank, and I haven't any use for the bank that is as cold as a corpse."

Courtesy an Investment

THESE fifty letters from fifty different bank managers show that bank employees who contact the public are in the most advantageous position in a bank for making the largest number of warm friends for their institution. This is based on the fact that by far the largest percentage of customers come in contact with employees, while only a

small percentage meet the officers. This being the case, the reputation of banks to a large degree, depends on the quality of service rendered by employees.

And yet, how few bankers, comparatively speaking, devote any of their time in developing the capacity of their employees to render an efficient service. Nearly all that can be said for some bankers is, that about the only attention they pay to the conduct of their employees is when an employee offends a customer or makes a mistake and the customer files a complaint. A bank can make no better investment than to train its employees to be courteous, tactful, and efficient.

This survey brings out another important point, namely, that a bank cannot afford to treat customers indifferently simply because their business is small. Just as long as their business is desirable, although it may not be highly profitable, such customers should be shown the same courtesy that is shown to customers whose business is larger. As has been clearly indicated by the cases cited, a bank cannot accurately judge the value of a customer to the bank by the size of his balance. Nor can a bank afford to treat strangers indifferently simply because they are not patrons, for as has been shown, it is from the ranks of strangers that valuable business is often developed.

The Little Things Help

IT has also been shown that bankers will do well if they will but impress on the minds of their employees the fact that a bank's service must be uniformly efficient throughout the bank. This point was so admirably brought out in one of the reports, that I am quoting from it:

"Employees must be made to realize that any indifference on their part not only reflects on them but also on the entire bank. Department heads must be made to realize that if the service in their department is not up to the bank's standard that it reflects on all other departments of the bank."

Unfortunately, it is not hard to find an employee or a department of employees who show very little interest in the rest of the bank or care very little whether other employees or other departments fail or succeed. Although a bank's staff is made up of individuals and its work segregated into departments, it is all one bank. For this reason employees should be made to see that success depends on how efficiently the entire organization functions.

And finally, it is the doing of the seemingly unimportant little things in a spirit of helpfulness that is helping to build big banks to a larger degree than is usually surmised.

Bank loans and investments for all banks in the country aggregated about $57,190,000,000 on Oct. 3, 1928, as shown by figures collected by the Federal Reserve Board.

The Crux of the Oil Problem

(*Continued from page 758*)

tial use, the over-plus will pass to competition with coal and the price for the over-plus, fixed by coal competition, will control the level of oil prices generally. Lifting oil out of coal competition can be accomplished only by a falling supply or control and repression of production, either of which will necessarily result in striking price advance. So long as oil is on the market, much will be devoted to non-essential use even at considerably increased prices.

Price the Only Incentive

PREFERENTIAL use cannot be established and maintained by law.

So long as natural petroleum is produced in the present quantity, or perhaps in one-half of that quantity, it is probable that substitutes can not be profitably distilled from either shale or coal, the two most promising sources in the order named.

The magnitude of the operation and plant investment, to say nothing of labor requirement, necessary to produce such oil substitutes in sufficient quantity even to approach real competition with natural oil under existing conditions is prohibitive, and even in the event of a serious continued decline of natural oil, it would require years and vast expenditure to put such an industry in position to supply such substitutes in sufficient quantity to keep pace with such a decline in petroleum production.

Considerably increased price is the only incentive to the production of substitutes in appreciable quantity.

Nearly in Balance

THERE is no doubt that the effectiveness of gasoline used can be readily increased 100 per cent by the genius of experts in the construction of internal combustion engines and treatment of motor fuel, but to supplant the millions of existing automotive engines will require much time and great expense.

Nearly all our imports of oil are crude, and nearly all our exports are refined products. The exports and imports of petroleum and its products during the period of twenty years last past are so nearly in balance that it would be highly indiscreet to prohibit exports or even to disturb, at this time, the ebb and flow of the commodity, because any change in condition of commerce in oil, especially of exports, would tend to drive American refiners to foreign shores and probably provoke retaliatory action by foreign countries and perhaps cause the imposition of export taxes by foreign nations producing oil.

The Federal Government is still the owner of vast areas embracing several hundred million acres of land, the title to which is held really in trust for the public generally. Within these areas are proven oil fields and also much unexplored and unexploited territory hold-

ing, in varying degrees, promise of oil in commercial quantities.

Leasing Mandatory

ALL these areas, except some special reserves, may fairly be said to be wide open to private appropriation through lease or otherwise. There seems to be no discretionary power anywhere to resist the exploitation of these lands and the plundering of the Government's oil resources. The leasing of the Indian lands is progressively mandatory until exhaustion.

This torrent of oil poured out by the Government itself from a rapidly diminishing and exhaustible resource held in trust for the public and an absolute essential to national defense and security helped to deluge the market and tremendously increase the vast volume of oil unrequired for essential use.

Such production by the Government under such conditions and the forcing of such oil upon the market can be characterized by language only slightly less obnoxious than the term willful waste.

One Form of Relief

THE industry can hardly be expected, much less asked, to aid in saving petroleum for essential purposes, to enlist in a crusade against existing methods of wasteful production, or to preserve the resource or any part of it, while the Government itself openly and determinedly invites and fosters the complete exploitation and inevitably the exhaustion of the only reservable supply which the Government can possibly protect and preserve.

And in reaching these conclusions I am not unmindful of the present advances in science, or those likely to be made in the future. Neither am I unmindful of the action of the Government in tacitly encouraging restricted production on Government and Indian lands. Nor am I either overlooking the fact that our present abundance of oil is in no sense an augury for continued lavish flowage; rather such a condition would seem to presage a constant and irretrievable depletion of existing reserves.

One form of relief from excessive and destructive production and competition may be found in the "unit pool" production plan which Henry L. Doherty has strenuously advanced and advocated. This plan has been quite effectively exploited, analyzed, condemned and praised. But whether it can be incorporated into statutes remains to be determined. I do not look for "oil legislation" at the present session of Congress. In large measure, legislation will depend upon action by, and recommendations from the executive departments of the Government, particularly from the Federal Oil Conservation Board.

The Post Office Department's analysis of the postal dollar for the fiscal year 1928 shows that parcel post accounts for \$0.198 of it, exceeded only by first class postage \$0.49.

Bulwarks of Safe Banking

(*Continued from page* 770)

of management, because of its substantial financial interest, is regarded as being more apt to secure for its bank the basic elements of successful internal control, namely: Capable officers, supervised by directors of independent means and judgment, with all parties awake to their responsibilities and giving generously of their time and efforts in the discharge of their duties, to the end that the interest of the investor-owner and the depositing public be fully protected.

Articles presenting in more detail various phases of banking covered by the report will appear in early issues of the JOURNAL.

Crowding Out Commercial Loans

(*Continued from page* 780)

of view of the banker. John Doe needs to borrow less money under the first merchandising program than under the second, even though his total annual sales are the same.

The fact is that commercial loans are declining. Some of the causes have been mentioned. How does it affect the liquidity of the banks? This, after all, is important, because the assets of banks must be liquid.

The following table tells the story. It is unfortunate that similar statistics are not available for 1921 and 1922, and that similar figures are not to be found in the last annual report of the Federal Reserve Board. These figures are taken for the end of June of each year; they are found in the annual report of the Federal Reserve Board for 1926.

Eligible Papers Held by National Banks
(In Millions of Dollars)

	Total Loans and Investments	Paper Eligible for Rediscount: Amount	Paper Eligible for Rediscount: Per Cent of Loans and Investments
1918	14,129	3,218	22.8
1919	16,074	3,551	22.1
1920	17,817	4,320	24.2
1923	16,891	3,563	21.1
1924	17,123	3,542	20.7
1925	18,405	3,412	18.5
1926	19,260	3,497	18.2

It is to be observed that the proportion of eligible paper has steadily declined since 1920 despite the fact that the Agricultural Credits Act of March 4, 1923, makes nine-month agricultural paper eligible for rediscount. The trend has been distinctly downward. While there is no cause for immediate alarm it is safe to say that this condition cannot continue for much longer at the present rate without impairing the liquidity of the banks' assets. And that is not to be desired.

The Department of Commerce is analyzing the records of bankrupt firms to determine the fundamental causes of failures.

Style Menaces the Balance Sheet

(Continued from page 784)

houses in this country took its turn at bomb tossing. It brought out a supersuds product, involving a new principle in laundry soaps. The introduction of this product sent soap manufacturers scurrying to their research laboratories. Only heaven knows what they will bring forth next. Thus the old soap business—one of the most stable of the staples—was influenced by fashion.

Kept in a Turmoil

A FEW months ago I spent a day going through the plant of an old established stove company in Detroit. In the forty-odd years that this concern has been in business its product has gone through an extensive evolution. It started out making a wood-burning cook stove. This graduated into the coal burner. Later the gas range came, and now the electric range is making quite a dent, although, of course, the gas stove is still far the best seller.

The heater end of the business has gone through a similar evolution. For years the old base-burner held the market. Then the hot air furnace sprang into popularity. It is still the leading heater, but of late a new fad is taking the trade by the ears—the stove that looks like a phonograph and that vies with the phonograph and the radio for a position in its owner's living room.

There's a business that is supposed to be as staple as dirt, but the general manager told me that in reality it is as sensitive to fashion as is the millinery trade. In the old days, style changes upset stove manufacturing at infrequent periods. But now the industry, with color and new methods of plating and new methods of heating, and whatnot, is kept in a turmoil of change all the time. However, it has to keep up in the procession or drop out altogether.

Wiped Out Over Night

THE officials of the National Carbon Company have come down to their offices several mornings in the last twenty years to find the prosperous business that existed the day before was wiped out during the night. For instance, at one time automobiles were lighted by a carbide gas system. The concerns in this field were "sitting pretty" for several years. The invention of the electric lighting and starting method knocked the pins from under the gas system. Of course, the gas method of lighting did not disappear immediately, but its doom was sealed as soon as the electric system was discovered.

However, a little thing like that did not discourage the National Carbon Company. It tried new products and entered new fields until it found more winners. The storage battery was one of them. Many battery markets were unearthed. The invention of radio was a great boon for battery manufacturers. The company

enjoyed a tremendous sale on radio batteries—until the coming of the electric radio set. To be sure, every one did not immediately throw away their battery sets. Also a large percentage of radio owners is not able to get electric current.

This means there will be a nice battery business for years to come. Nevertheless, the company saw the handwriting on the wall and decided to act while the chances were still good. So it brought out a radio receiving set of its own. Having a full set, instead of merely part of set (batteries), the company is now prepared to turn any direction the radio waves may take.

In the Vanguard

WHILE it is necessary for a business to keep up with the style procession in its field, it does not have to follow in the wake of the parade. It is just as easy for it to be in the vanguard. That is the system of one of the nationally known fountain pen companies. Fifteen years ago its head was a retail jeweler in Fort Madison, Iowa. His entrance into fountain pen manufacturing was based on some mechanical improvements in pens which he conceived. He introduced several such improvements, and after that began featuring style changes in his product at such a rapid rate that he literally revolutionized the industry within a few years. One of these changes was the desk fountain pen, which has more than doubled the potential fountain pen market.

In the course of his introductions he gradually raised the unit of sale in this business until we now find fountain pen sets selling for as high as $100. Naturally the whole industry has profited from his pioneering.

Fashion Affects Finance

STYLE has not only affected the selling end of business, but it also has had a far-reaching effect on the financial structure of all industry and commerce. Its biggest accomplishment is the way it has speeded up turnover. Under present conditions, a manufacturer must produce on a hand-to-mouth basis. With fashion changes constantly pending, he dare not pile up too much stock or buy raw materials too long ahead. This procedure releases capital that used to be tied up in inventories.

Similarly the merchant, fearing the fickleness of Fashion, is also buying in dribs and drabs. His turnover has been greatly increased. Thus his capital becomes more liquid and his need for banking accommodation is less. For instance, the F. W. Woolworth Company has increased its turnover in recent years from less than five times a year to slightly more than eight and a half. This has increased the company's bank accounts by several million dollars—so much so that it is no longer obliged to borrow much money in the fall to finance its heavy holiday purchases.

Here we have one of the explanations of why many big business houses are in the call money market in competition with banks. A faster turnover makes it

possible for a business to operate with less capital and to have less need for borrowed money. On the contrary, many manufacturers and merchants today have an investing problem constantly on their hands. Like the commercial banks, the business man cannot put his money out on long-time loans. Hence he puts it on call, where he can get it quickly.

Making Capital Loans Behave

(*Continued from page* 788)

his profits, from time to time, in the form of a safety fund.

Five Requirements

TO recapitulate our requirements for the granting of a capital loan, we must have (1) an absolute understanding that the borrower is himself running the risk of a demand for liquidation in full at maturity; (2) a borrower who is actually or comparatively debt-free, and in possession of enough cash capital of his own to provide the requisite margin of security; (3) he must have demonstrated his capacity to manage his finances and to save regularly; (4) if he has a family, we must know that the household will be conducted on a basis of thrift and economy until the debts of the income-producer are met in full; and (5) our margin of security must be maintained constantly at an adequate level.

Fortunately, we have not often been called upon to enforce our rights in these cases strictly on the original terms. On the other hand, we have been able to give several young farmers their big start in life, and these men, as has been said, are daily becoming better and better customers of the bank. Their balances, in the main are satisfactory and growing, and probably most important of all, they are the strongest boosters we have. If we so desired, we might classify their deposit balances with our time deposits when we are mentally segregating the deposits we would have to meet at once in case of a run, because we can be fairly certain that few of these young fellows would be found lined up with the depositors who demand their balances at once and in cash.

Gold Stocks

THE total stock of monetary gold held in the United States at the end of December, 1928, was $4,141,000,000, a decrease of $238,000,000 from the total of $4,379,000,000 at the end of 1927, according to Federal Reserve Board statistics.

In the hands of your employees rests to no small degree the future of your bank. The JOURNAL is published to stir their imaginations; develop their thinking; broaden their knowledge. For how many of them are you subscribing?

Germany's Stockholders Call in the Bankers

(*Continued from page* 741)

any other has led students in all countries to the conclusion that Germany will be unable to create credits abroad sufficiently large enough to meet the additional requirements of the "normal" cash transfers under the Dawes Plan without resorting to borrowings that might threaten the whole delicate structure. This realization may bring about an agreement among the powers (a) to fix the amount of the German indemnity and (b) to "commercialize" a lump sum loan which will be used to pay off the respective governments now indebted to Germany and replace them with individual debtors or holders of German reparation bonds throughout the world.

From the standpoint of the transfer problem such a step would prove most salutary. Receiving cash instead of half cash and half deliveries in kind as at present, the powers are obviously prepared to fix the total indemnity at a sum which will enable them to (a) satisfy the war debts to the United States (b) provide for restoration of French devastated areas and (c) reimburse Belgium for 1,000,000,000 marks of now worthless German money left in Belgium at the end of the war. The cash received by the Allies from the sale of German reparation bonds could be used to discount the debts to the United States which grow more burdensome every year but must still be met from a fixed German payment of $600,000,000, not more than $200,000,000 of which can under present conditions of German economy be transferred in cash. Under present debt agreements with the United States this entire amount of cash received from Germany must be turned over to the United States each year, while in 1950 nearly twice this sum will have to be paid this country. If the American debt payments could be discounted with the proceeds of a German reparations loan, at say, the same interest rate of 7 per cent carried by that loan, the whole problem of war debts and reparations could be removed from the realm of world politics and treated as an ordinary commercial loan.

Closed to Americans

SUCH a transaction would involve bond issues extending over at least six years and amounting to approximately $500,000,000 a year. It would relieve Germany of all reparations' payments in cash but would require $210,000,000 in interest for cash transfer abroad each year and approximately $90,000,000 in amortization (on a thirty-year issue basis).

It is probable that German deliveries in kind would satisfy French demands for restoration of the devastated area and Belgium's demands for losses accruing from worthless German money left in Belgium. The German loan market, now practically closed to American investors due to the anticipated shortage

in transfer funds as a result of increased reparation demands, would therefore, of necessity remain closed until such time as German trade had created new sources of foreign credit which would insure our investors the payment of interest and amortization. That such a solution or something like it will be the outcome of the present conferences on the reparations problems seems dictated by every consideration of world progress.

The revival of Germany's foreign trade has proved a large factor in the revival of world commerce in the past five years. The effect of German rehabilitation on Europe is more readily appreciated when it is understood that 50 per cent of all German imports are from Europe and 70 per cent of all German exports go to European countries. If settlement of the reparations problem would mean an expansion of German foreign trade the principal effect would be felt in Europe first, but secondarily in the United States which provides 16 per cent of Germany's imports and in Asia which supplies 11 per cent.

A New Arbiter

ASIDE from mere economic effects, however, the restoration of Germany has been an essential prerequisite to the reestablishment of that political atmosphere which found its expression in the Locarno Agreement. As soon as the Dawes Agreement went into effect and it became evident that American loans would provide the medium whereby effective transfers of cash could be made by Germany to the Allies, the vindictiveness that had marked the useless occupation of the Ruhr disappeared. A new arbiter in European financial affairs had appeared in the mighty American dollar.

When the Dawes Plan was adopted the United States happened to be the repository of more than half the world's gold. Interest rates were low and money was cheap. Germany, placed on a stable currency basis, offered an attractive field for surplus American capital at anywhere from 2 per cent to 3 per cent higher interest rates than the holders of this capital could obtain at home. Nothing except force, therefore, could prevent it from flowing to the German market and the only brake that has been applied has been the fear on the part of individual investors that under the first "normal" year of the Dawes Plan beginning in September, 1928, the prior rights of the Allied Governments to take all available foreign credit for the satisfaction of annual cash transfers amounting to something like $400,000,000 will leave no foreign exchange in Germany with which to pay interest and amortization on debts already contracted to say noth-

ing of those which might be contracted in the future.

Hope of the Future

GERMAN flotations during the last half of 1928 in this market, therefore, amounted only to something like $14,180,000 for the third quarter of the year as compared with $53,500,000 for the first quarter and $148,850,000 for the second quarter. The fourth quarter flotations were likewise exceedingly light.

Even the commercialization of the Reparations loan would do little to remedy this situation, as the $300,000,000 that would have to be provided in foreign exchange to meet interest and amortization on this loan due to foreign holders every year, plus the $120,000,000 in interest and amortization now payable each year in foreign currency loans will leave little if any German credit abroad, with which to satisfy the necessary payments on further foreign loans.

With the floating of a Reparations loan, therefore, the restoration of Germany, so far as it can be accomplished by outside aid must necessarily be complete. The future course of the Reich will then depend entirely upon the inward economy of the nation itself. With limitations on any great growth of exports because of the very character of German exports themselves, competing in many instances with indigenous local industries abroad, the principal hope for the further progress of Germany would seem to lie in the revival of agriculture and its restoration to at least that position which it held before the war.

National Bank Investments

INVESTMENTS of the national banks reflected an increase of more than $754,000,000 during the year ended June 30, 1928. Securities held by the banks were summarized in the annual report of the Comptroller of the Currency in the following table:

[In thousands of dollars]

	June 30, 1927	June 30, 1928
Domestic securities:		
State, county, or other municipal bonds......	743,539	840,461
Railroad bonds..........	656,690	681,007
Other public-service corporation bonds.......	648,767	742,784
All other bonds.........	910,694	1,028,203
Claims, warrants, judgments, etc.	80,140	82,580
Collateral trust and other corporation notes.....	155,976	135,700
Foreign government bonds	237,854	296,490
Other foreign bonds and securities	188,927	252,719
Stocks, Federal Reserve banks	81,910	91,126
Stocks, all other..........	92,543	105,211
Total	3,797,040	4,256,281
U. S. Government securities	2,596,178	2,891,167
Total bonds of all classes	6,393,218	7,147,448

While investments in every class of securities showed increases for the year, the general level of distribution was well maintained. The increase in government securities was $294,989,000 and the increase in all other investments was $459,241,000.

Designs of the first Irish Free State coinage, now in circulation. The series of eight coins depicts the products from which the wealth of Ireland is derived. The denominations are: The Irish Hunter, half-crown; Salmon, florin; Bull, shilling; Irish Wolfhound, sixpence; Hare, three-pence; Hen and Chickens, penny; Sow, half-penny; Woodcock, farthing. The obverse of each coin bears an Irish harp and the legend, Saorstat Eireann

Nebraska Guaranty Law Test

By DAN V. STEPHENS

President, Fremont State Bank, Fremont, Nebraska

THE present status of the Depositors' Guaranty Law, of Nebraska, (January 26, 1929), presents a rather favorable situation. The legislature is not of one mind by any means as to the solution of the difficulty but to a man it realizes the necessity of action.

No doubt this has been brought about very largely by the fact that 587 banks have joined in a suit to restrain the bank commissioner from collecting a special assessment upon the deposits of the state banks for the benefit of the guaranty law on the ground of its unconstitutionality.

The evidence supporting this suit is ample and will undoubtedly have a profound effect upon the court when it is presented. Should the case be lost in the Supreme Court of Nebraska, it will be carried to the Supreme Court of the United States for ultimate adjudication. The desire of the bankers to have this question finally adjudicated is prompted by the necessity of fixing a limitation beyond which state legislators cannot go in the matter of levying assessments for the purpose of guaranteeing deposits. Such a decision will have nation-wide interest and will protect bankers everywhere from the exploitation of radicals through ill considered legislation.

Banks Balk at Paying

THERE is considerable sentiment in favor of repealing the law by paying up all past obligations. Of course human nature will operate in this matter as all others, so we will expect to hear the general taxpayer clamor for laying the burden upon the banks, whereas the banks are not disposed to pay the losses.

The banks are divided into two classes: A small minority of the banks can pay the assessment and still lay by some surplus, but the large majority of the banks cannot lay by a surplus if they pay the assessments and some of them would have to dig into their surplus to pay it. The minority, who can pay it, will not pay it for the reason that they do not have to. They did not contract the debt and sense no obligation to pay it. The debt was caused by the incompetency of the state to direct adequately its own banking business. It chartered banks at every crossroad until we had a bank for every 1200 people.

It supervised them so miserably that 370 of them have failed. The solvent banks of the state had nothing to do with it whatsoever excepting to bear the load and, since they have paid over $16,500,000 on the debt, they positively balk at paying any more.

Eliminating Politics

A QUESTIONNAIRE was sent out a few days ago to the bankers of the state and 510 of them answered it. One of the questions propounded was: "Do you favor repealing the law as a whole?" There were 317 votes for repeal and 169 against. This would appear to fairly reflect the public sentiment also on this subject. The patrons of all national banks, of course, want the law repealed, whereas the 90,000 depositors in banks that have been closed do not want the law repealed. Of the bankers answering questionnaire 487 want the state to pay the loss and twenty-three want the banks to pay it.

We have presented to the legislature (with a very flattering prospect of enactment) a bill providing for an entirely new banking code which provides for a complete elimination of politics in the administration of the Banking Department. The salient features of the bill provide for a banking board of five members appointed for terms of five years by the governor without regard to political affiliations, so appointed that one member's term expires each year. Three of this board must be executives of state banks, who have had at least five years experience in such capacity and one member representing industry and another agriculture.

This board will nominate and recommend to the governor the appointment of an executive secretary, or bank commissioner, for a term of five years. The board will fix his salary. In addition to the power now possessed by the bank commissioner, he will also be made receiver for all failed banks in the state, assuming the duties now vested in the Guarantee Fund Commission of seven members. The attorney-general will assign, upon the recommendation of the bank commissioner, an assistant attorney-general to the duties prescribed for him by the bank commissioner. His salary will be fixed and paid by the banking board.

The banking board will have the power to charter banks at its discretion and license the executive officers; fix the policy of bank supervision; direct the employment of examiners and fix their salaries. This banking board will have full power to divide the state into examining districts carrying out the regional clearinghouse idea advocated by the American Bankers Association. In fact, there is nothing left out of the bill that seemed necessary in the setting up of an independent business organization that would, practically speaking, make bank failures impossible considering the human element that will be involved.

Repudiation Deplored

THIS banking bill was submitted in the questionnaire to the bankers of Nebraska for their approval and the questionnaire showed 474 in favor of it and thirty-three against.

The hopeful outlook for its passage is due to the necessity that confronts us in setting up some sort of effective machinery that will stabilize banking and prevent further losses.

The remedy of the problem is the payment of depositors. Practically every state that had a guaranty law so far has virtually repudiated the debt that it morally owed the depositors. The people of Nebraska deplore such a spirit of repudiation and we are hoping that this feeling in the hearts of the people will affect the legislature and encourage it in making some sort of an effort to adjust these claims.

An Unknown Quantity

TO that end the two banking committees of the House and Senate have introduced a bill with a long preamble in which they set forth the situation; the moral obligation; the amount of the claims; the effect of their repudiation; the loss of public moneys now tied up in closed banks; together with the remedy in the form of two or three short sections of a proposed law authorizing the levying of a ⅜ of 1 per cent assessment

against the deposits of the state banks each year for a period of five years. Out of this levy the depositors in the banks that failed during the five-year period are to be paid first and the amount remaining is to be applied on the deficit now existing in the banks that have already been closed.

In addition to this sum, the legislature provides for an appropriation of $4,000,000 out of the general treasury for this biennium with the expectation that the next legislature would appropriate a similar amount. It is believed that these amounts realized, coupled with the assets now in the hands of receivers, would pay the debt to the depositors and wipe the slate clean by the end of five years. The law would then terminate and the guaranty feature would pass out of existence.

What the legislature will do with this particular phase of the subject is an unknown quantity. The best guessers we have are unable to foresee the outcome of the guarantee feature of the proposed reform. However, we are all hopeful and see few obstacles in the way at the present moment of the enactment of the new banking board law and that is the all-important feature that will count definitely and positively in favor of better banking practices. With this new banking board we will not have any more bank failures that will justify a guaranty of deposits law in the mind even of the public, which has heretofore clamored incessantly for such legislation.

Paid Their Premium

IT has been claimed by some that our suit is causing some resentment among legislators. This point, in our judgment, is not well taken for the reason that the bankers who have entered into this legal contest have done so as a matter of self-preservation and it is not their purpose to cease their efforts along these lines excepting to the extent of adjusting their program to the convenience of the state of Nebraska, that is the defendant in the suit. Quite an effort is being made by the defendant to show that the banks have prospered under the Guarantee Act and that they acquiesced in it; approved of it, and used it to the limit.

Our answer to that, of course, is simple. The bankers paid their premium for this mutual insurance, that the state had put upon them and utilized such advantages as it afforded them to a justifiable limit and when the state through its organization quit paying the losses of this alleged mutual insurance company the bankers quit paying their premiums just as anyone else would have done under similar circumstances.

Of course if the legislature repeals the law or modifies it to the extent that it will be acceptable to the banks, there might be a disposition on the part of the banks to withdraw the suit and they might be justified in doing so, although it is a case that really should be decided ultimately by the Supreme Court of the United States for the benefit of banking everywhere.

TOTAL deposits of the Postal Savings System on June 30, 1928 were $152,143,349, an increase of $4,784,095 over the total of $147,359,254 on June 30, 1927, Postmaster General New has advised Congress in his annual report as chairman of the board of trustees of the savings system.

At the close of the year ending June 30, 1928, there were 6683 depositories in operation, including 786 branches and stations, an increase of 11 depositories during the year. The number of depositors increased from 411,394 to 412,250, the gain in accounts being 856.

India's Struggle with Silver

(Continued from page 750)

United States is concerned has been in the psychological reaction of the world's silver market to the constant threat of the dumping of a considerable portion of the Indian government's silver reserve upon the world market. Several times during the two years and a half that the present policy has operated, the Indian authorities have disposed of considerable quantities of silver and always with disastrous results to the world market. At one time as much as 10,000,000 ounces were sold in a single transaction on the London market and while this amount is small compared with the total Indian stocks and is less than a fourth of what the Commission originally proposed that the government dispose of annually, it was sufficient to demoralize the world market for a considerable period.

As a matter of fact, the government of India now has in its reserves over 50,000,000 rupees more silver than it had at the time the present policy was inaugurated. On July 31, 1926, substantially at the time the Commission's report was made public, the Indian currency reserve in coin and bullion amounted to Rupees 968,300,000. On December 15, 1928, the holdings amounted to Rs. 1,023,800,000. At various times during the past two and a half years the holdings have been larger. On October 31, 1927, the silver reserves amounted to Rs. 1,155,800,000. In June, 1928, they reached as low as Rs. 981,800,000 but they rose again and on September 27, 1928, they reached Rs. 1,061,400,000. Since that time they have been steadily declining.

A Costly Lesson

THE significant feature of the record is that as silver reserves have decreased gold reserves have increased. For three years prior to the inauguration of the present policy, the gold reserves of the government had been held at around Rs. 223,000,000, the holding in gold on July 31, 1926, being Rs. 223,185,058. On Dec. 15, 1928, the gold reserve was reported at Rs. 311,000,000, as compared with Rs. 300,900,000 two weeks previous thereto.

In other words, the reduction of the silver reserve over short periods in the past year has a direct connection with the purchase of gold, although over the entire period of two and a half years of the present government policy the gold reserve has been increased to the amount of about Rs. 75,000,000 in spite of a general increase in the reserves of silver. The lesson to be learned from this course of reserve movements, if any lesson is practicable or desirable, is that, although India's silver reserve hangs over the silver market of the world like a sword of Damocles to prevent any material advance in the price of the white metal, its new gold standard directly or indirectly is costing the Indian government a considerable amount, which must be met from other resources. This, in fact, was exactly what was predicted by the opponents of the rate of a shilling and sixpence for the rupee as opposed to the old rate of a shilling and fourpence.

It was contended that the higher rate was too ambitious for India, that it would result in a drain upon the country, which must come from its general resources. The advocates of the higher rate claimed that since the new rate was consistent with sterling exchange at the time, it was a fair and natural rate justified by India's favorable merchandising balance of trade, and that in any event the cost could be met from silver reserves. It is evident that both sides of the debate were correct in part and wrong in part.

In the meanwhile the danger to the silver market in the United States and the world generally lies in the fact that not only has the government of India disposed of considerable silver from time to time to build up its gold reserve, but that at any time, in order to support its currency at the present high gold parity, it may be forced to dispose of much larger amounts, which would depress the price of silver the world over beyond all reason.

Vast Silver Hoardings

THE fact is that the Indian government is forced into a position where it must try and eat its cake and keep it at the same time. It is as much to the interest of the Indian government and

the Indian people to maintain the price of silver as of any other interests in the world. Aside from the fact that any depression in the price of silver means a direct decrease in the value of the immense silver reserve is the fact that the silver holdings of the people of India are far and away the greatest of any nation in the world. It is generally calculated that silver hoardings in India amount to at least a third of the world's total stocks of the white metal.

All this immense hoard has a direct relation to the silver in circulation, and while the total amount of silver in circulation in the country is unknown, the Currency Commission proposed to limit the ultimate liability of the government or the reserve bank in the matter of contracting the silver circulation and assimilating it to the gold secured currency to Rs. 500,000,000. It was the plan of the commission to reduce the silver reserves from Rs. 950,000,000, calculated as the reserve of the time, actually shown by the currency reports then current as amounting to upward of Rs. 968,000,000, to the Rs. 250,000,000, which was considered necessary as a subsidiary coin reserve.

This reduction was to be made over a period of ten years at a fixed rate—i. e., the total reserves in silver, including the Rs. 500,000,000 for rupee coin conversion, was not to exceed Rs. 700,000,000 until the end of the third year, Rs. 500,000,000 from the third to the sixth year, Rs. 350,000,000 from the sixth to the tenth year, and only Rs. 250,000,000 thereafter, it being calculated that the liability with respect to the conversion of the rupee would decrease from year to year as coined rupees were presented for conversion into the new gold secured currency. The plan provided that the silver reserve in excess of the Rs. 700,000,000 should be retained by the government and the Rs. 700,000,000 balance should be reduced to the minimum of Rs. 250,000,000 at the average rate of Rs. 45,000,000 per year. Assuming that the government was content to hold the Rs. 268,000,000 left on its hands indefinitely, it is this Rs. 45,000,000 per year which is the threat over the silver market.

Three Years in Arrears

DURING 1928 the Indian government succeeded in reducing its silver reserves by about Rs. 42,000,000, which is substantially the rate contemplated by the Currency Commission. However, since it had found it necessary earlier in the period, since the inauguration of its gold standard policy, to buy silver in large amounts for the purpose of maintaining silver prices or for other reasons, the present net silver reserve is left at a point which is something like three years in arrears in the contemplated program.

It would be unfair to assume that this delay in the program of progressively reducing the silver reserve necessarily means that the program cannot or will not be successfully carried out. The large purchases of silver in the fiscal year 1926-1927 were necessary to offset the psychological effect of the announcement of the government policy, which so depressed the price of silver by giving the metal support in the world's markets. It is also to be noted that while the government's policy with respect to the silver reserve had been generally followed since the beginning of 1926, it had no legal approval until April, 1927.

The silver reserve was augmented mostly before the new system had any specific legal sanction. Then, too, the rising price level in India effected by the government's policy naturally led to an increased demand for currency, which was reflected in an increased demand for silver. At all events, in spite of the declared intention of the imperial government to reduce its silver holdings as rapidly as possible, and in spite of the cessation of coinage since 1923, the demand of India upon the silver stocks of the world has shown little change from the immediate pre-war and post-war standard.

Gold Imports Increase

THE annual average net imports of silver into India from 1920 to 1926 amounted to 76,265,833 ounces, as compared with 131,219,000 ounces in the four years from 1916 to 1920, which were generally admitted to be abnormally high, and 77,898,000 ounces annual average between 1912 and 1915. The net imports in the fiscal year 1926-1927

amounted to 124,242,345 ounces; those of 1927-1928 amounted to 92,824,256 ounces, or an average of 108,533,300 ounces for the two years. While the imports of the fiscal year 1927-1928 show a marked decrease as compared with the previous year, they are comparatively little below those of the fiscal year 1925-1926, so that it is too early as yet to predicate what the effect of the new currency policy in the empire will have upon its takings of the metal.

On the other hand, in spite of the increase in the amount of gold held in reserve by the currency authority, the net imports of gold into India have been decreasing. After the very abnormal year of 1924-1925, when the net imports of gold bullion and sovereigns reached a total of 11,980,854 ounces, the net imports decreased to 6,135,581 ounces in 1925-1926, 3,385,529 ounces in 1926-1927 and to 3,181,760 ounces in the fiscal year ending with March, 1928. There has been a considerable increase in the imports of gold into India between March and the close of the year 1928, so that the net imports for the calendar year 1928 are estimated at something like $20,000,000 over those of the previous calendar year. According to the latest information available, the gold reserve holdings of the Indian government have increased in about the same amount during this period.

Prima facie, there is ground for the inference that the government of India, by its policy, has succeeded in checking the progressive absorption of gold in India, which normally would occur after three favorable agricultural seasons and is diverting a larger proportion of gold imports to its reserve—in other words, that it is really making its policy operate successfully. This inference is supported by the fact that there has been a considerable increase in the use of gold secured currency, while bank deposits in the two banking systems of the country show a very considerable increase.

Tendency Against Silver

THE refusal of the Legislative Assembly of India to sanction the establishment of the central or reserve bank in that country has, of course, done away with the fixed program of reducing the silver reserve and building up the gold reserve as the basis for a gold standard currency, and while the government apparently has followed the policies recommended by the Currency Commission so far as it could safely do so under present legislation, there can be no certainty as to the program to be followed. In some respects it is this uncertainty of the prospect which has been the most unfortunate feature of the situation.

There seems to be no doubt that at times during the past two years, particularly when the demand for silver in China for military purposes was especially strong, or when the widespread speculation in the Japanese yen in the Far East locked up a considerable amount of silver—probably as much as 100,000,000 ounces at one time—the world price of silver would have advanced materially had it not been for the fear, if not the certainty, that any material advance would be immediately checked by sales of Indian government silver. Doubtless any material decline in silver would be met by purchases by the Indian government to protect the value of India's silver holdings. To this extent the Indian situation has been a stabilizing influence in the silver market and in the industries which depend upon it.

However, the general tendency is against silver. The government of India on the face of things is guiding that country away from the use of silver as rapidly and as completely as possible. It only awaits opportunity to get out of the silver market so far as currency matters are concerned, and while it is probable that the treasure hoarding of the Indian people both in gold and silver, which has existed for hundreds of years,

will continue more or less indefinitely, the silver world will lose a good customer for currency purposes just as soon as the customer can cash in and get away.

On the other hand, the pressure of India on the gold market of the world is certain to increase. The demand for gold for reserve purposes in itself is considerable, although it may not seem to be of much moment when measured with the immense gold transactions with other countries. It is an additional drain upon a gold supply which is already becoming too small for the world's needs. Probably three-fourths of the gold sent into India is for purposes other than currency reserves. In any event, most of the gold that goes into India quite generally is lost to the rest of the world. That which goes into reserve must rest there indefinitely and be added to until it reaches an amount which will be very considerable indeed to meet India's requirements. Much of the gold which goes into India also is hoarded, and some of it is simply dissipated—in hoards which are lost.

Withal, the government of India, now that it has entered upon this policy, must support its new currency at any cost, and to obtain the gold necessary for this purpose, it is under constant pressure to sell its silver, even though such sales mean a direct and material loss to the government itself and to the Indian people. Any such loss would be small compared with losses attending the collapse of its gold standard undertaking, and while no doubt the government of India will make every effort possible to avert loss to the rest of the world in its transactions, the fact remains that the rest of the world may be compelled to take a loss to avert calamity in the empire.

Nevertheless the situation of silver is not as unfavorable as might at first appear. The threat of silver sales by India to support its gold standard is serious, but on the other hand India's takings of silver, for hoarding or otherwise, continue with comparatively little abatement. The demand for silver in China promises to increase under a stabilization program likely to be recommended by the Kemmerer Commission, and there is some slight increase in demand for silver for monetary purposes in other countries, while its use in art and industry is increasing and will further increase as the world returns to normal.

Dutch Blue Sky Law

PROVISIONS in the nature of "blue sky" regulations intended to protect the public against fraudulent prospectuses and announcements are included in the revised commercial laws of the Netherlands as they apply to stock companies. Publication of articles of association, agreements and other records, as well as the filing of reports covering methods of organization and practices are required of all stock companies.

Investing Trust Funds

(Continued from page 745)

always be some diversity of maturities. Real estate mortgages, because of their yield and legality, are particularly attractive in small accounts, and those of, say, $25,000 or less can be entirely invested in this type of security. In the larger accounts it is customary to limit the investment in mortgages to one-half, or perhaps one-third, of the total.

Going Over the List

IN some parts of the country where mortgages can be obtained to yield much more than they do in the large cities, trustees look with still greater favor on this type of security. In fact, in some of the southern states, where mortgages yield 7 and often 8 per cent, I understand that as many as can be obtained are bought for trusts, and it is only when the supply is exhausted that trustees turn to general market issues. When sound mortgages are available on such a basis there is no reason to criticize this policy, for its evident disadvantages are more than offset by the higher income and the stability of principal.

Going over the securities in a new trust, let us assume that the first issue on the list is a long-term high coupon bond that is callable a few years hence at well below its current market. Its retention will give a high current income but result in a loss to principal and a reduction of income if it is called. The life tenant's needs, the other in-

vestments, the remainderman's probable attitude, and the possibility of offsetting the loss by a profit on other issues owned, will influence your decision on what to do with these bonds.

The next is a perfectly sound 5 per cent bond selling slightly below par, but it is part of a small issue put out by a comparatively unimportant company. You do not hold obligations of this company in any of your other trusts, and it will be necessary for you to make special arrangements to follow the bonds in this one account. That is expensive, and it is hardly probable that the affairs of this company will receive the same close scrutiny as do those of companies in which you have a considerable investment. Your study of this security may indicate that it is so attractive you decide to buy more of the same bonds for other accounts; but if not, why not sell it and buy some security with which you are more familiar? Needless to say, this policy should not be carried to an extreme.

Advantages of Discretion

THEN comes a speculative stock that is manifestly unsuitable for permanent retention and is selling at inflated prices. It is simple to decide what course to adopt, but the next security is not so easy. This is a similar speculative issue, but it is selling at a low price and there is a fair prospect of its advancing considerably. With that type of issue you have an alternative to holding or selling in the discretion of your investment officer. This in effect gives him an open order to sell, and as such it will be reviewed daily instead of every month or two when the rest of the account is considered.

In fact, in many institutions all orders are considered more or less discretionary, not as to whether they are to be executed or not, but as to just when and at what prices the orders are given to the brokers. This, apparently, adds to the responsibility of your investment officer, but in the final analysis this is not true, for instead it simplifies his work. The orders generally originate from recommendations made by the investment department, and, if sales and purchases must be executed the minute they are approved, the tendency is to hold up the recommendations until the market reaches a particular point, and then try to rush them through. When the bank does not need to consult anyone, this may be workable, even though clumsy, but if it is necessary to write letters on the subject, the probabilities are that you will miss your market.

The advantages of the discretionary method may be illustrated by our experience with an estate we received early last spring. This account held about $400,000 of bank stocks, to be placed in trust for the widow. From these stocks she would have received only about $9,000 a year, for under the laws of New York she would not be entitled to the value of any subscription rights. Early in April when we had no desire to take any immediate action we explained to our co-executor that we could more than double the widow's income by disposing of the greater part of these stocks and buying other securities. There was a good deal of opposition at first, but after discussion with the widow and her children they agreed with the suggestions. All this required about two weeks, but when it was arranged we took no immediate action, as bank stocks were acting well. About two months later the situation changed and in two days we sold all the stocks. We sold close to the top, and realized more than $50,000 above the values in April, when the sales had been discussed and decided upon.

But this should not convey the idea that I am telling only the good news and, like the stock speculator, forgetting about the losses, for the investment officer is not taking any chances of selling materially below the "approved prices" and if the market has not acted well between the time of the original recommendation and its final approval, he sells the securities without further delay.

This is the third of a series of articles by Mr. Kunhardt. Another article of the series, which began in the December, 1928, Journal, will appear in an early issue.

Money of the Masses

(Continued from page 730)

these individuals, if single and not heads of families, can have a net income in excess of $1,500, and if married, or head of a family, a net income, together with that of their wife or dependents, of more than $3,500. Thus, there is indicated a total net income of anywhere from an impossible maximum of $72,000,000,000 to a more probable total annual net income of $20,000,000,000 for these 38,000,000.

What Becomes of It

TO this must be added the income of the individuals who are not wage earners and who do not directly or indirectly make returns of income to the Federal Government, derived from rents and royalties, interest and investments, dividends, and the sale of property not carried on as a business. This total will not exceed $12,000,000,000 as a maximum. This would give as a total net income for all individual residents of the United States about $55,000,000,000 exclusive of gifts and legacies. This income would be received by about 23,000,000 families, an average of something like $2,400 per family per year, or an average annual income for every man, woman and child in the United States of a trifle over $462.

The question, naturally, is "What becomes of this immense annual income"? Evidently a very large part of this is consumed by everyday necessities, to say nothing of luxuries. It might be possible to compute the amount expended annually for bread, for meat, for rent, for clothing, amusements, transportation, and other expenses but there seems to be a more direct method of arriving at the answer.

In the end all surplus income must finally be left behind when the recipient passes to the great beyond. Every penny of his entire income, from its incipiency, that he has not spent, lost, or given away must be on hand in some form upon his death. The Federal Government has been imposing an estate tax since Sept. 9, 1916, and such a law is still in force. This requires a return to the government of the estate of every decedent, a resident or citizen of the United States who dies possessed of an estate of $50,000 or more, if death occurred prior to Feb. 26, 1926, and of $100,000 or more if death occurred subsequent to that date.

Property Left Behind

AN estate of $50,000, depending upon the nature of its assets, would produce an income of from $1,000 to $3,000 yearly. From September 9, 1916 to December 31, 1927 estate tax returns have been filed with the Federal Government on account of 118,275 resident decedents covering gross estates to the value of $26,548,184,125. The various deductions and exemptions allowed by the law reduced this amount to $15,246,365,466 as the value of the net taxable estates, with a total tax of $857,075,714. This would indicate that for this period, an annual average of $2,353,676,770 in property was left behind by an average annual death of 10,486 individuals. The total average annual number of deaths in the United States during that period was about 1,300,000. Of these some 600,000 were minors; some 300,000 were dependents or others without income who died practically penniless. This leaves some 400,000 persons dying annually of whom about 10,500 leave estates valued at some $2,355,000,000. That is, individuals numbering about four-tenths of one per cent of those returning taxable income die annually and leave behind them 4¼ per cent of a full year's national income, or about 15 per cent of the total taxable net income returned for income tax.

In addition to these decedents, some 390,000 individuals die annually, practically none of whom make returns for income tax. It is probable that the combined total value of the property left behind by these will not exceed $2,000,000,000. This indicates as a total for all property that passes by death, annually, in the United States, about $4,355,000,000, as compared with the annual number of deaths of about 1,300,000. As already shown, of these, only some 400,000 die in possession of property of an appreciable value.

Stock Most Favored

THESE computations are based upon returns covering a term of something over eleven years. The last year of which we have records is the calendar

year 1927. During that year 9353 returns were made for decedents, covering gross estates valued at $3,146,289,565. Of these estates, 307 were valued at $1,000,000 or over. There were seven returns for estates in excess of $10,000,000, totaling a gross value of $128,569,586, an average of over $18,000,000 each.

The form of property favored most by these estates was corporate stock. Nearly 40 per cent of the total gross value was in this form of property, or about $1,224,000,000. The next was real estate, about 18 per cent of the total, or $573,500,000. Then came bonds, about 15 per cent, or some $464,800,000. Then mortgages, notes, cash, etc., something over 11 per cent, or $357,271,000. Insurance was valued at $88,950,000; jointly owned property, $235,300,000; transfers made within two years of death, without valuation consideration, $92,600,000; powers made in contemplation of death, $21,400,000; property received from an estate taxed within five years, $88,500,000.

From this gross estate were deductable debts, unpaid mortgages, etc., amounting to $310,596,000; funeral and administration expenses, $129,580,000; insurance exemption, $46,500,000; charitable, public and similar bequests, $130,975,000; specific exemptions, $798,900,000.

Exemptions Allowed

THE total Federal tax from the returns for 1927 amounted to $100,531,676. The law, however, allows a tax credit for death taxes paid to any of the states, territories, or to the District of Columbia. This credit amounted, for 1927, to $59,600,452, leaving the United States' share of the tax as $40,931,224.

Owing to the time allowed for returns for estate tax to be made, quite a few of the returns made during the calendar year 1927 were on account of deaths prior to February 26, 1926, and therefore entitled to a specific exemption from tax of $50,000.

The 9353 returns made during 1927 included 229 returns of gross estates under $50,000 and 2,163 estates of over $50,000 each, which were not taxable, owing to the several deductions and exemptions. Of the 229 returns of estates under $50,000, the average was $38,400, and 150 of them were entitled to the specific exemption of $50,000 each and seventy-nine to $100,000, the latter estates having passed, because of deaths subsequent to 10.25 a. m., February 26, 1926. Of the 2163 with gross estates of over $50,000, averaging $132,460 each, that were not taxable, 574 had the $50,000 exemption and 1589 the $100,000 special exemption.

Savings Accounts Grow

IT is probable that the total value of property owned by all decedents whose estates were settled during 1927, dying in the United States, was fully $5,150,000,000. This was distributed among all the states, Alaska, Hawaii and the District of Columbia. The large majority of this value, over 75 per cent, belonged to decedents that lived in eleven states, as follows:

New York	$1,051,100,000
Pennsylvania	591,700,000
California	402,700,000
Massachusetts	384,200,000
Illinois	347,600,000
New Jersey	292,500,000
Ohio	288,900,000
Connecticut	161,700,000
Michigan	124,600,000
Missouri	116,900,000
Texas	102,000,000
Total	$3,863,900,000

The states receiving death taxes that entitled the estates paying them to credits against the Federal tax, based on returns filed during 1927, that exceeded $1,000,000 to any one state, were as follows:

New York	$17,569,000
Massachusetts	8,018,000
New Jersey	5,494,000
Pennsylvania	5,353,000
California	5,080,000
Illinois	3,776,000
Ohio	3,593,000
Connecticut	1,568,000

The total loss in tax to the Federal Government through all these credits was $59,600,452, or over 59 per cent of the entire tax. The above eight states were credited with about $50,451,000 of these tax credits, or about 85 per cent of the total. The remaining credits were distributed among all the other states, territories and the District of Columbia, with the single exception of Nevada, the total tax returned from this state amounted only to $108.

Another item that enters into the property left by decedents is their sav-

ings. The total savings deposits in banks of all kinds, and in trust companies, approximated $27,000,000,000 for 1927, and assets of building and loan associations were about $7,000,000,000. These savings accounts are growing about $3,400,000,000 a year. In addition some $5,000,000,000 are being put into real estate by way of savings, each year. What is left of these savings pass about once in thirty years. Of the approximately 14,000 millionaires in the United States the record shows that 307 were returned as decedents for 1927, or about 2.2 per cent. There were 283 millionaires included in the returns for decedents filed during 1926, and 244 for 1925.

New Trend in Trusts

(*Continued from page* 733)

ties, one gathers the very definite notion that their real function is that of a wholesale trader in securities rather than that of an investor in them. And this is where the distinction between the earlier investment trusts and those that have been organized during the past year becomes visible.

It is an outgrowth of the universal speculation in stocks and the large returns that have been made by successful operators in them plus a certain amount of capitalization of the record of concerns that, beginning business with no other policy than that of making long-term investments, found themselves in possession of profits that they could not resist taking. These profits have been the basis of the unusual distributions made on investment trust junior shares. It may not be too strong a statement to say that the new security companies are sailing under false colors in assuming the title of "investment trusts." They should, more properly, be classified as trading companies or trading pools.

A *Frank Statement*

THE largest aggregation of capital to deal in securities was brought together in December. It took in $104,000,000 to be used for the purpose "of buying, selling, trading in or holding stocks and securities of any kind or to participate in syndicates and underwritings." It frankly styled itself a "trading corporation." Those who bought its stock did so in the belief that the managers of the company were shrewd judges of security values and would make money for them from year to year from the recurring fluctuations in stocks. It would be well if other smaller corporations were equally frank and avoided the disguise of an investment trust to cover what are essentially their "in and out" operations in the stock market.

Shortly after this gigantic trading corporation was announced, there came upon the scene a $70,000,000 company whose functions were somewhat different from either the strict investment trust or the trading corporation. Its charter stated that it had been organized for the purpose, among others, "of acquiring for permanent or temporary investment, minority or controlling interests in established businesses offering possibility of larger earning power or enhancement in value." The investments of this corporation were to be made chiefly in groups of companies conducting "fundamentally related businesses which are producing or distributing trade-mark articles or standard commodities capable of wide use. Diversity is not necessarily a primary purpose of the corporation." It was stated that the nature of the corporation's business may make it "inadvisable to publish complete lists of its security holdings at any given time."

In this case the profit anticipated is that from what are known in Wall Street as "long pull" investments rather than from temporary trends in the market. The company will put behind promising business situations the necessary capital and the proper management, and let them ride for a long profit. Its returns may be slow. Eventually they should be substantial. Here again there has been a frank exposition of what the directors propose to do. The investor can go into the situation or leave it alone.

So long as stocks continue to advance there will be more and more trading or finance companies abusing the term "investment trust," and larger trading profits will be shown than profit in the form of dividends or interest on the securities held. As a matter of fact, the ratio this past year with not a few of the trusts has been two dollars in trading profits to one dollar in income.

There is a strong plea being made to protect the term "trust" as it is used in connection with fiduciary relations, and to prevent its abuse or employment to designate a corporation that has only an investing function. So far as the British investment trusts are concerned, as well as their corresponding companies in the United States, this may not be necessary. However, from the tendencies that have been outlined above, it is obvious that the term "trust" is a misnomer when applied to a corporation that primarily trades in securities rather than purchases them after careful investigation, and sets them aside in its portfolio to await the fruits of steady growth. The public should know the difference between the two types of investment companies now existing here and be able to make a fair choice between them when it is asked to risk its capital in their securities.

Bank Turns Farmer

(Continued from page 727)

counts on the purchases of roofing, materials, seeds, lumber, limestone, phosphate, and other supplies and equipment and passes the saving on to the tenants operating his farms.

One of the most important factors in Mr. McLaughlin's success as a farm manager is the tenant himself. He tries to gain the confidence and cooperation of his tenants. When this is not possible, other tenants are obtained who will cooperate. He has a waiting list of tenants who want farms, but great care is taken in the selection of the tenant, since the difference between poor and good tenants means thousands of dollars per farm. The selection of good tenants alone is well worth the cost of skilled management in farming.

Most of the farms under Mr. McLaughlin's control are operated under a grain share lease. One is operated under a fifty-fifty livestock lease and is proving to be a very desirable type of lease, as it makes a partner out of the tenant and allows him to feed his grain on the farm. The great difficulty with livestock leases in this district is that of finding a good livestock farmer. A large majority of the farmers in the corn belt are by birth and training grain farmers and it is impractical to make anything else out of them. The problems pertaining to livestock farming such as buying and marketing livestock, buying breeding stock, balancing rations by purchases of protein supplements, caring for livestock, construction of buildings and fencing, call for rare qualities not often found in the average farmer in the corn belt. When this type of tenant is found it proves to be a very profitable kind of farming.

Here to Stay

THE type of supervised farming so successfully carried on by the Citizens National Bank of Decatur under McLaughlin's direction has come to stay. The farm is a factory and no factory can succeed without proper supervision. Farming is a business and no business can succeed without a good manager. The average farm in the corn belt probably represents an investment of from $50,000 to $60,000. The owners of such farms can well pay a small fee for skilled supervision by a competent farm manager.

The success of the supervised groups of farms which has been achieved by Mr. McLaughlin and other of the new school leads one to question President-elect Hoover's statement that: "Farming is and must continue to be an individualistic business of small units and independent ownership."

Farming is more than a mere state of living: it is a business proposition and if success is expected in this business it must make use of those factors which have made for success in all other lines of industry.

Diary of a Bank Examiner

(Continued from page 731)

of Mr. Brown that he objected to the other day.

"Well, Mr. Brown was just in and paid that up."

The Examiner feels that either his judgment must be off or else the information given was wrong and inquires if he paid in cash.

"No, he gave a new note." Asked how about the interest:

"Oh, he added that to the amount of the new note. Shows he does not forget his obligations."

Where Is Smith?

EXAMINATION proceeds much more briskly from now on with both parties getting rather tired of each other and little, if any, unnecessary conversation.

Note of Gus Smith for $85.60 reduced from $90 during the past ten months and secured by a chattel mortgage on an ancient Ford touring car claims attention next.

No interest having ever been paid, Examiner wants to know.

"How about it? Looks like Smith's memory is rather poor, doesn't it?"

Cashier admits that it might seem that way.

"But you notice we hold a mortgage on his car."

Examiner shows curiosity as to Smith's occupation, whereabouts and location of car.

"Oh, where is Smith now? Say, Bill (calling upon note teller). Where's Smith now?"

"What Smith is that?"

"Why, Smith that gave us this note," showing Bill the note.

"Oh, he left here. Went to either California or Idaho, I don't know which."

"Well, where is the car?"

"Darn if I know. He took it with him."

The Very Last Note

CASHIER turns to the Examiner with the query, "Can you beat that?", and the Examiner for once agrees with him. He cannot. While the cashier is almost inclined to agree with the Examiner in classing this loan as a loss he is unshaken in his belief that once he can get in touch with Gus he will pay up.

The remainder of the notes seem to be fairly satisfactory and need very little comment. The president has returned from the city in time to meet the Examiner and say how sorry he was not to have been able to sit in, and to express his entire confidence in the cashier to explain away any little questions that may arise.

The note of Adolph Zwicker for $30 appears and as this is the very last note in the pouch the Examiner makes a feeble attempt at a pleasantry and remarks:

"Well, well, this is the note I have been looking for for three days." Cashier fails utterly to get the point and comes back peevishly:

"Don't see how you knew old man Zwicker had a note anyway."

Examination closes.

Silently Goes Out

BOTH shake hands with usual felicitations and with more or less cordial wishes for another visitation soon. Realizing that by this time the truth has been stretched to the breaking point they part at once.

The cashier, kicking the liability ledger back under the counter, where it reposes until the next examination, and replacing the bond register in its accustomed place on the stenographer's seat, locks the notes up in the vault, forgetting the collateral which he leaves on the counter, and goes home feeling that he has certainly done a day's work. It is a big relief to him to get away from this business.

The Examiner, meanwhile, silently straps up his bag and goes out into the outer darkness wondering just how much of his report will be facts and how much fancy.

Government Liens on Bank Deposits

(Continued from page 725)

possession, belonging to its depositor, is charged with a Government lien.

Should Be Corrected

THE situation is one that should in some way be corrected, either by an opinion of the Attorney General giving a different interpretation of the law or by a Department ruling to the effect that the lien will not be enforced upon bank deposits in the absence of notice direct to the bank. Should the opinion be allowed to stand on the theory that the law has been rightly construed by the Bureau of Internal Revenue and is to be enforced—although we have not learned that any bank has yet been called upon to pay the tax by reason of having paid a deposit, charged with a lien—there must of necessity be corrective legislation to exclude bank deposits from the application of such lien, until, at all events, the bank is actually served with notice thereof. Following is the full text of the opinion of the General Counsel of the Internal Revenue Bureau:

The Opinion

AN opinion is requested as to whether a notice of an income tax lien duly filed and recorded operates as a lien on bank deposits of the taxpayer and on debts due to the taxpayer when specific notice of the lien has not been served on the bank or on the debtors.

Under the provisions of Section 3186, Revised Statutes, as amended by Section 613, of the Revenue Act of 1928, an income tax lien covers "all property and rights to property, whether real or personal," belonging to the delinquent taxpayer. This same provision was contained in Section 3186 in its original form and also in its amended forms as appearing in the Act of March 4, 1913 (37 Stat. 1016), and in the Act of February 26, 1926 (43 Stat. 994), so that an outstanding income tax lien, whether notice thereof was filed before or after the enactment of the Revenue Act of 1928, must be regarded as covering all property and rights to property of the delinquent taxpayer.

The provisions of Section 3186, Revised Statutes (in its original and its amended forms), have often received judicial construction, as, for example, in the following cases: Osterberg vs. United Trust Co. (93 U. S. 424); United States vs. Snyder (149 U. S. 210); United States vs. Kaufman (267 U. S. 408); United States vs. Allen (14 Fed. 263); United States vs. Curry (201 Fed. 371); In re Wyley Co. (292 Fed. 900); Heyward vs. United States (2 Fed. (2d) 467); In re Baltimore Pearl Hominy Co. (5 Fed. (2d) 553), and Sherwood vs. Sherwood (5 Fed. (2d) 991).

"By Implication"

THE cited cases as a whole fully sustain the validity of the Government's lien for tax upon the property and rights to property of a delinquent taxpayer; and while those cases adjudicated since March 4, 1913 (when Section 3186, Revised Statutes, was first amended to require the filing of a notice of the lien to make the same valid as against mortgages, purchasers and judgment creditors), do not specifically pass upon the question submitted, they recognize, by implication at least, the validity of tax liens notices of which were filed in the manner prescribed by the statute.

It will be noted from a reading of Section 3186, Revised Statutes, as amended by the Act of February 26, 1925 (in which amended form the phraseology of the 1913 form was preserved in totidem verbis, there being inserted in appropriate places in the second proviso thereof a designation of certain local officers of the States of Connecticut, Rhode Island and Vermont as among those with whom notice of tax lien might be filed), that a collector was under no obligation to furnish a copy of the notice of lien to any bank or debtor of the delinquent taxpayer. The collector's duty under the law was performed fully when he filed the notice of the lien in the office of the public official authorized under the statute to receive the same for filing. The identical situation is existing with respect to notices of lien filed since the enactment of the Revenue Act of 1928. As an administrative policy based on a desire the better to protect the interests of the United States and to enable depositaries (such as banks, trust companies and other holders of assets or credits of delinquent taxpayers) to become advised of the existence of tax liens, collectors have been permitted to furnish depositaries with copies of the notice in exceptional cases. These copies are not furnished in all cases. Indeed, they could not be, for in a great majority of cases where notices of lien are filed the exact location of the taxpayers' property is unknown to the collector filing the notices. Neither is the copy, whenever furnished to a private person (whether corporate or individual, as distinguished from the public officer designated by law as the proper recipient of the original notice), furnished because of any legal right to receive the same. It is intended merely as an informative document respecting the claim of the United States upon the property and rights to property of the delinquent taxpayer. The question submitted for opinion must therefore be answered in the affirmative.

Another Process

IN this connection reference is made to another process in the internal revenue practice which often is confused with the filing of notices of lien. The process of distraint authorized by Section 3187, Revised Statutes, et seq., is one of the processes by which an existing lien for taxes may be enforced.

Under Section 3187, as amended by Section 1016 of the Revenue Act of 1924, a bank account is subject to distraint. Collectors are directed when levying upon a simple contract debt, such as a bank or other deposit, to attach the original notification form, addressed to the depositary, a copy of the warrant of distraint and of the notice of lien. Whenever distraint of a bank account is sought to be made, the depositor is entitled to a copy of the notice of lien. In connection with the process of distraint, attention is directed to Section 1114(e) of the Revenue Act of 1926, which indicates clearly the duty of all holders of assets belonging to a delinquent taxpayer, or in which he has legal rights, to surrender the same to the collector upon the service of a distraint warrant in order to avoid the liability imposed by this Section upon one who declines to honor the collector's levy.

The General Counsel of the American Bankers Association has presented this subject to the Chairman of the Banking and Currency Committee of the House of Representatives and requested consideration of the above opinion by that Committee, looking to the introduction and passage of corrective legislation in the event the Internal Revenue Bureau adheres to its ruling.

Foreign Adviser

(*Continued from page* 729)

the responsibility over to the government.

"This does not mean that we are visionaries. We try to have some vision; we try to do some dreaming. We find that on these jobs we have to be dreamers to a considerable extent, but at the same time we try to avoid as far as possible undue dreaming. If we frequently look into the sky, we try to do so with our feet on the ground.

Rarely Write Reports

"'HOW do you make your recommendations?' is another question frequently asked. Our recommendations as a rule are made in a different form than are the recommendations of most foreign advisers.

"We rarely write what would be called reports. If we are working on a central bank plan, our recommendation will usually take the form of a bill ready for legislation. It will begin: 'Be it enacted by the Senate and House of Representatives of X country: Article 1, etc.'

"After the bill itself there will be a general report on the bill. In this report will be given the general philosophy back of our recommendations, covering a statement of the problem, a discussion of the various possible solutions and of our reasons for the selection of the plan incorporated in our project of law. This is a simple explanation that anyone who is interested in these things can understand. Following this general introductory statement there will be a running account or explanation of each article, showing its whys and wherefores and how it should function.

Trial and Error Process

"THIS plan of formulating recommendations has certain advantages. In the first place, we take the offensive from the start. We put the other fellow on the defensive. When our recommendation is presented to the government it is ready to be enacted into law, and the man who is opposing it must give his reasons why he is against it. It is a great advantage in a case of that kind to have the offensive position.

"Then again we secure promptness. These documents are ready to go to the legislature at once, and very often they are enacted in a few days. A great many of our projects have been enacted into law before we have left the country, although we usually stay in a country only about ten or twelve weeks.

"We do not pretend for a minute that our projects are perfect and final. Nobody can go into a country for a few months' time and draft perfect legislation, if there is such a thing. We do claim that our projects are fundamentally sound, that they are movements in the right direction. We expect that experience will disclose plenty of mistakes in detail that will be corrected by the process of trials and error, but we believe that the projects are sound in their essentials and point in the right direction.

"We try to get reports from the countries which we have served after we return home, so that we may know the mistakes we have made and profit by them.

"Our recommendations are confidential documents when made to the government. In some cases the government has published them in the newspapers at once, as in Colombia. In other cases the first thing the public hear about them is the promulgation of the new laws. Often our work has been helped by the existence of strong and even autocratic governments. In Poland we accomplished a great deal more than we would have otherwise accomplished because of the fact that Marshal Pilsudski was in power.

"When we went to Chile there was a strong government in power, and our recommendations were made before the new constitution was adopted and therefore when there was no congress—in some respects a beautiful situation to work with, no constitution to restrict the executive and no congress to debate its projects. Our bills were enacted by the President and his Cabinet by what were known as 'decree laws.' Later a constitution was adopted, a congress elected, and the decree laws confirmed and regularized.

Advice Usually Followed

"IN Ecuador we had a similar situation, a strong revolutionary government and no congress. The government had not even been recognized by the United States when we were in Ecuador. It was able to put through the reforms we recommended without the restrictions of a constitution and without the necessity of obtaining the approval of a congress. Since then Ecuador has called a constitutional assembly, elected a President and Congress and has been recognized by the United States:

"Another question frequently asked is: 'Do governments usually follow your advice?' That is not easy to answer.

"The correct answer would involve many qualifications, but I can say in general that in my experience a substantial part of the advice given is usually adopted, and in a large proportion of the cases, the major part of the recommendations have been followed. Almost all of our recommendations were followed, except a few tax measures in Chile; practically all in Ecuador; almost all in Bolivia; almost all in Colombia. The need for reform legislation is great, and the people are receptive. They must have felt the need to be great before they would have been willing to call in a foreigner to aid them, and when they have reached that attitude of mind, the public are likely to be strongly favorable to the reforms recommended. Foreign countries, then, usually do follow our advice, and it is remarkable what favorable receptions we generally receive.

Interest Rates

(Continued from page 735)

accepted. A higher normal rate for money lessens the height of the "abnormal" level and hence lessens the spread to be closed.

There can be no dogmatic assertion that there is a new normal rate for money. The present level of interest rates have not been sustained over a sufficiently long enough time to warrant an outright assumption of fact. Nevertheless, there is as much reason to contend that money prices have moved up a step as there is to consider "abnormal" rates in the light of 3 per cent call money.

In addition to the general theories that are applied to the money market there is one factor that nowadays is held over the heads of the optimists sometimes almost like a threat, and that is the gold situation. It is pointed out that the country's gold stock has been depleted. We have lost gold. We may lose more. High rates may become the synonym for tight money and the general level may go higher.

The New Index

IT should always be remembered that part of the tightening process that brought money rates up from the forced low levels of the summer of 1927 was the discontinuance of the policy of the Federal Reserve System for offsetting gold exports. The machinery of this policy is very simple. When the Federal Reserve System purchases government

securities in the open market in an amount equivalent to gold exported the effect of gold shipments is offset. The country is not helpless in the face of a recurrence of the outward gold movement.

Strategically the Federal Reserve System is in an excellent position to conduct open market operations whenever it sees fit. Its government security portfolios are light. It could afford purchases of several hundred millions should there be danger of business suffering from higher interest rates caused by the loss of gold, or from any other cause for that matter.

In other words, the Federal Reserve System could preserve the new normal rates for money. At least it could prevent serious fluctuations in the general level of interest rates, those that directly concern business, for a sufficient length of time to demonstrate whether present levels are wholly "abnormal" and must therefore be readjusted back to the old standards.

Meanwhile there is the new normal to be considered. If higher prices for money are to be accepted as part of the change in the general price level, particularly the readjustments which have taken place in the past two or three years, then the business of finance and banking will be predicated upon the new index. There will be less of a disposition to wait for rates to "return to normal." There will be less uncertainty and greater confidence in the future.

New Bond Market Psychology

(*Continued from page* 734)

showed a greater decline than did the legal utilities carrying the same rating. Public utility bonds rated A and B1+ showed the same tendency as those bearing the higher ratings and were second to the railroad issues in point of the extent of the decline.

The Order of Decline

INDUSTRIAL bonds bearing the highest rating (A1+) showed a greater resistance to a declining market than did the foreign government, railroad, or public utility issues. As a matter of fact, the representative industrial issues of the highest grade showed a loss of only one point, whereas rails as a class declined more than 5 points, public utilities about 1¼ points, and foreign governments about 1½ points. Industrial bonds rated A1 also made a better showing in this respect than did the other classes, but when we get down to the A rating we find that the foreign government issues lost practically no ground at all, while in the B1+ class of foreign government issues there was actually a slight rise in price. Taken as a whole, therefore, we find that all grades of bonds decline in this order: first, rails; second, utilities; third, industrials, and fourth, foreign governments.

The greatest decline of all issues was in those of the highest class, namely, those rated A1+. The second grade bonds (or those rated A1) closely followed the highest grade issues, while the decline in issues rated A and B1+ was much less severe.

One of the most interesting developments in the bond market, and one which the chart does not reveal, was the abnormally large decline in the prices of new bonds. During the first four months of 1928, when bond prices in general were maintaining their peak levels, seventy-five new issues originally offered in that period declined an average of 3¼ points per bond by the close of the year. Those issues which were offered in the latter part of this period showed an even wider margin of decline. Seventeen representative issues offered in April, 1928, declined by the end of the year almost 4½ points from their offering price, while only five of the seventy-five issues showed a gain in price during the period. The average decline was almost double that of the general bond market. This would seem to make it conclusively evident that the majority of these new offerings were brought out originally at prices greater than their real investment value.

As has been seen, the greatest proportion of the loss in bond prices was

borne by the highest grade of railroad issues. Why should this have been the case?

The impression appears to be rather general that the banks, insurance companies, and other large financial institutions who had adopted a new policy of liquidating their bond holdings in part had selected the issues to be sold from a yield basis; that is, that they had picked for sale, first, those issues which brought them the lowest return.

Apparently, however, this was not the case. For example, they sold railroad bonds bringing them returns of 4.79 per cent for those rated A and 5.17 per cent for those rated B1 + to a much greater extent than they did those public utility bonds yielding only 4.44 per cent and 4.49 per cent.

Took the Profits

INVESTIGATION points to a very different reason for the sale of the high grade railroad issues. To a very great extent the legal rails had been held by a great many banks and insurance companies for a long period of years and showed exceptionally good profits—much greater than did the public utility, industrial and foreign government issues that they bought in comparatively recent years. Therefore, when a bank or insurance company had definitely committed itself to a policy of curtailing its bond account for the purpose of raising funds to be loaned in the stock market it decided, first, to sell the bonds in which it had good profits.

The banker, like every other executive, likes to show his directors a profit, and the greater the profit the greater his satisfaction. His profits in the public utility and industrial issues, while highly satisfactory, in most cases were not nearly so great as they were in the case of the high grade legal rail issues which have appreciated in market value to a great extent in the last few years. Therefore, they sold their legal railroad bonds, and as the portfolios of most of these banking institutions were made up principally of railroad issues, the volume of selling of that class of bond was naturally larger than for the other securities. This, then, explains the relatively greater losses in the legal rails.

THESE institutions, furthermore, did not sell the lower grade or more speculative bonds which they held because in a great many cases they had no profits in this particular class of bonds, and, as a matter of fact, had losses in a number of them. Apparently the banker is as much averse to taking a loss in his bonds as is the average investor. When it becomes necessary or desirable for him to sell some of his bonds, he selects, not those in which he has a loss, but those in which he has the best profits.

This tendency has been brought sharply home to us just recently. We have had visits within a few days of each other from the presidents of two small country banks who wished to consult us with regard to certain bonds in their portfolios, in connection with which they did not feel exactly easy. One of these banks held bonds of the "XYZ" Railroad Co. and the other bonds of the "ABC" Bridge Co., the sale of both of which we had repeatedly recommended. We pointed out to both of these bank executives, when our opinion was requested as to whether or not they should retain these bonds, that we had on several occasions recommended to them the sale of these particular issues. The reply of both was identical:

"Yes, I know, but we have a loss in those bonds and I hate to sell them for that reason. You are probably right in telling us that they should be sold, but I have been hoping that they would move up a little so that I could get out without quite so great a loss."

This, it would seem, embodies the psychology of recent bond selling.

Fewer Bank Failures

STRIKING contraction in the number of bank failures in the United States during the past year is reported by the State Bank Division of the American Bankers Association. Its compilation shows a total of 484 banks failed in 1928 as compared with 831 in 1927. Including private banks, state bank failures in 1928 numbered 413 and national bank failures 71 as against failures of 689 state banks and 142 national banks in the previous year.

Analysis to Benefit the Cooperatives

(Continued from page 761)

analysis of the New York egg market and of the interdependence of this and other large markets for eggs, for this association ships to New York whenever conditions make this seem advisable.

Sales Policies Studied

"TO make the results of this many-barreled study as widely useful as possible, one report was prepared especially for the board of directors of the association and the results of general interest are being prepared for publication.

"Another business study was made of the Producers' Live Stock Commission Association of National Stock Yards, East St. Louis, Illinois, one of the twenty-five cooperative livestock marketing agencies that operate on the terminal markets. This project was undertaken at the request of the board of directors and because it afforded an opportunity to study analytically one of the larger terminal livestock marketing associations. Again the study included an analysis of the organization set-up of the association and of the financial results of its operation. The price and sales policies of the association were analyzed statistically.

"Membership problems were studied, including the consistency with which members and others had consigned shipments of livestock to the association from year to year. Interviews were held with member and non-member shippers of the association, and others, to determine their attitude toward the association and its operation.

"The results of this study were reported in full to the board of directors. Based on this report, a suggested program of research for a national association was presented by the Division of Cooperative Marketing to the board of directors of the National Live Stock Producers' Association, at their request. The findings of the study are being prepared for publication.

Market Stability Maintained

"AGAIN at the request of the board of directors, a business analysis of the Rice Growers Association of California has been undertaken, which will embrace the problems involved in the marketing of the rough and milled rice of the United States. Particular study was made of the methods followed by the association in disposing of members' rough rice to domestic buyers and in disposing of the crop surplus as brown or milled rice in foreign markets, principally Japan. Foreign demand fluctuates, so the possibilities of the export trade and of alternatives constitute an important problem.

"In its usual selling operations the association does not pool the sales returns of its members, but permits the members to choose the date and approve the price at which the association sells. But through effective grading service, marketing credit arrangements for individual growers, current news letters to individual members, and efficient advisory field departments, the management has succeeded in maintaining market stability and obtaining the highest possible market price for the members' rough rice."

Will Cover All Groups

SO closely associated with management problems are the questions of membership relations and satisfactory field service, that some studies have been made of these phases for associations whose entire business was not analyzed, for on this information alone, these and other organizations can build more effective field service and educational programs. This series of surveys of membership relations has included certain large tobacco and cotton cooperative associations, and four large fluid-milk cooperative marketing associations. The latter were studied in cooperation with the Ohio State University and Cornell University, and preliminary reports were made to the associations.

What the members think about the association and its work may be erroneous or may be over-optimistic—may be prejudiced in either way—but whether they are right or wrong, what they think has much to do with their loyalty, and hence with the stability of the association. What members think is, of course, of vital importance when the time comes to renew contracts. The surveys sometimes reveal many misconceptions

among members and often reveal a very general lack of information about their own organization.

On the basis of these reports the extension force of the department of rural economics at Ohio State University, together with the officers of the association and the representatives of the Division of Cooperative Marketing, formulated somewhat in detail an educational program for Ohio cooperatives which they have executed in cooperation with the field-service departments of the two cooperatives. Similar preliminary reports were made to the Philadelphia and New York milk cooperatives in formulating in detail an educational program for the 25,000 members of the Philadelphia association and the 45,000 members of the New York Dairymen's League.

Other surveys of this series have been made in connection with the local livestock shipping associations of Illinois and Missouri, the prune and apricot growers' organization of California, and the Pacific Cooperative Wool Growers' Association. It is planned to cover all of the representative branches of cooperative marketing (all groups of commodities) before this series of studies is completed.

Turning to the other side of the story, a group of organizations and agricultural leaders in Virginia, North Carolina, and South Carolina urged that one of the department's analysts make a study to determine the cause of the recent failure of a large tobacco growers' cooperative association that formerly covered three states. The purpose was to obtain facts that will be of use to other tobacco cooperatives in avoiding similar misfortunes and in directing their business operations.

"In the course of the study, information regarding tobacco marketing and price data were obtained from representatives of tobacco warehouses over the three states, and visits were made to about 1000 farmer-producers," says Mr. Christensen.

"As it progressed, the study emphasized three major aspects of the situation with respect to the cooperative marketing of tobacco in North Carolina, South Carolina, and Virginia: (1) Unfavorable social conditions and low standards of living among the tobacco producers; (2) deterring economic conditions surrounding the tobacco growers, particularly the fact that the majority of farmers are heavily in debt and that most of the tobacco is grown on borrowed capital; (3) deterring inherent characteristics of tobacco production and marketing.

"Then certain factors within the association, such as failure to employ a full-time executive, extravagant expenditures, weaknesses in price and sales policy, and redrying policy, contributed to the failure of this association. None of these aspects or factors seemed necessarily to constitute real obstacles to the permanent development of the cooperative marketing of tobacco."

These business analyses constitute only one of the many lines of research now under way that relate to cooperative marketing, but it is perhaps the one that reaches deepest into the fundamentals of that phase of agriculture which the President of the United States and other leaders are studying as offering "the most promising solution of the great marketing problem."

Midget Investment Trusts

(Continued from page 762)

the schedule of payments is not too great a burden.

The small loan companies which have been organized within the past few years have had the experience of installment selling available to them. They have been quick to recognize that lending money to pay for a family emergency, with repayments over a period of months, is essentially the same thing as paying for the emergency on the installment plan, and the experience so far accumulated by small loan companies confirms the sound character of the average man as a credit risk.

One large concern with 176,000 small loans outstanding reported only 858 uncollectible loans at the end of last year. This equaled only 0.003 per cent of the dollar volume of the total loans outstanding, and only 0.48 per cent of the

total number of loans. Experience of other companies also shows that the amount of loss is less than 1 per cent.

Banks Entered the Field

ANOTHER large company dealing in small loans has found that an even smaller percentage of loss is experienced when husband and wife jointly undertake the obligation.

Recent estimates put the number of small loan transactions in New York City last year in excess of 2,000,000, which demonstrates the need for small loan institutions. It was partly as a result of this survey and the successful experience of some of the small loan companies that two large New York banks took up the movement. As a result of their experience other banks, particularly in cities, are entering into the small loan field, and it is probable that most of the small loan business will, within the course of a few years, be centered in the banks.

The chief reason for this prediction is the fact that the interest rates charged by the small loan companies are of necessity greater than the rates at which such loans can be made by banks. This is caused by the fact that small loan companies are compelled to operate only with their own capital, on which they themselves must pay a substantial interest charge. The banks get their capital largely from their depositors for the most part at very small expense. They are able to make loans at much lower rates of interest than are the specialized small loan companies.

New Classes of Customers

THE interest rates charged by the small loan companies are regulated by law in most states, with a maximum permissible charge of 3½ per cent per month. One of the largest of these companies has recently reduced its rate to 2½ per cent a month, but it seems probable that the banks will be able to carry on the business for even smaller charges. If the banks are to secure a large proportion of the small loan business, the laws in many states will have to be changed, as the business will not grow to great proportions until the banks can dispense with the double indorsement of notes, which many wage earners find it difficult or embarrassing to secure. Changes in the law may take time, but a measure so much in the public interest will undoubtedly get strong political support.

In addition to their efforts in the small loan field, banks are reaching out for new classes of customers by offering to invest money for people of small means. The pioneer work in this field has also been carried on by companies not connected with the banks. The investment trust has only become popular in this country since the war, but has had a phenomenal growth in the last eight years. There is now a distinct tendency among banks to establish investment departments into which small investors can put their money in specified amounts each month. The bank invests the money in sound securities, and deducts only a small amount for the expense of handling the funds and a small percentage of the profits from the investments. This represents an extension of the functions of the trust department and is new only in the sense of its application to small investors, and in the fact that these investments are not limited to certain classes of securities as are the investments of savings banks.

Laws Will Be Revised

AT present the laws of many states forbid the banks to engage in this type of activity, and banks in some states are operating through separately incorporated subsidiaries. Here again there is little doubt that, with the spread of the movement, laws will be revised to permit banks to carry on an investment business for their customers in a regular department of the bank itself. Many of the present companies encourage the investment at regular intervals of very small amounts of money, sometimes as low as $10 a month.

The development of this department of banking is being watched with the keenest interest by bankers throughout the country. Savings bank officials realize that any great extension of this form of banking might soon become dangerously competitive to savings departments and savings banks.

The average man now puts his money

into a savings bank, and in return receives a low rate of interest, but with almost perfect security of his principal. If these customers who regularly add to their savings deposits are to be offered a choice between, on the one hand, a low rate of interest with a high degree of security for the principal, and, on the other hand, a much greater possible return with only slightly less security of principal, it seems probable that, human nature being what it is, most of them would choose the latter.

Many bankers believe that at the rate at which the business of investment trusts and of investment departments of banks is now growing, there is good reason to believe that serious inroads on their savings deposits may be made in the not distant future.

The participation of banks in the small loan and small investment fields is of considerable economic and social importance, aside from the desirable results to the banks themselves. With credit facilities at his disposal with which to tide himself over an emergency, and facilities for investing equal to those afforded to the wealthiest, the small salaried worker or wage earner is given an opportunity for economic independence which has been woefully lacking in the past.

There are thousands of wage earners who could provide themselves with a competence for old age by saving small amounts each month, if the management of their money were as good as the management employed to handle the affairs of large estates. The concentration of a large volume of small investments in the hands of a bank insures their administration by the most capable brains available, and gives to the average citizen and his wealthy neighbor a real equality of opportunity.

Our Stake in Latin America

(*Continued from page* 766)

successful exploitation and management or by the marketing facilities provided by the parent company in the United States? The latter factors are manifestly difficult of determination and yet they are very important in the success of the enterprise, as for example, in the development of low-grade copper properties in Chile to which reference will be made later.

Another course of action might be to take the par value of the bonds and shares issued by the several companies. There are, however, a number of objections to this method. Capitalization may be below or in excess of the real value of the investment. Moreover, the capitalization of a number of American enterprises abroad is not always a matter of record.

Exceed All Others

RECOURSE might be had to the balance sheets of the interested corporations and their net worth computed therefrom. In the case of mining and oil companies, however, one does not know whether the value of the properties have been written down excessively or insufficiently through charge-offs for depletion and depreciation, although one has the feeling that most companies pursue a very conservative policy in this regard.

This digression has been made in explanation of the wide range in the estimates of our foreign investments, particularly those in Latin America, and by way of qualification of the figures cited in this article.

Whatever the exact figures might be according to any fixed set of criteria, there can be no question that our total investments in Latin America exceed those in any other continent by at least a billion and possibly by as much as two billion dollars. But it might be added that they constitute a slightly smaller proportion of our total investments abroad than they did fifteen years ago, thanks to the remarkable increase in our investments in Europe, Canada and the Far East.

Convention Calendar

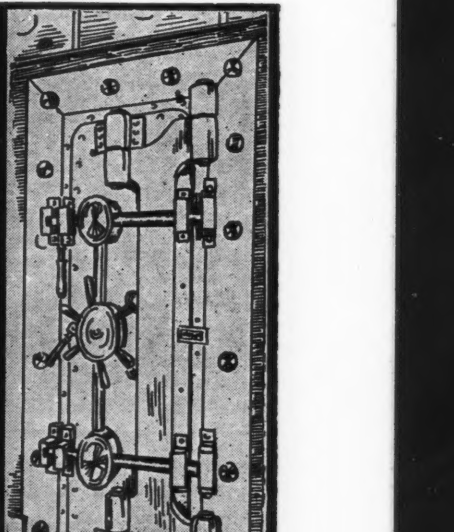
Date		State Associations	Place
April	24-25	Louisiana	Lake Charles
April	26-27	New Mexico	Las Vegas
May	....	Rhode Island	East Providence
May	14-15	Mississippi	
May	14-16	Texas	Galveston
May	15-17	Pennsylvania	Atlantic City, N. J.
May	16-17	Missouri	
May	16-18	New Jersey	Atlantic City
May	21-22	Oklahoma	Oklahoma City
May	22-23	Maryland	Atlantic City, N. J.
May	22-24	Ohio	Columbus
May	22-24	Kansas	Hays
May	23-24	Alabama	Montgomery
May	28-30	Georgia	
June	....	Maine	Poland Springs
June	6-7	South Dakota	Rapid City
June	11-12	Wisconsin	Milwaukee
June	11-12	North Dakota	Minot
June	12-15	California	Sacramento
June	13-14	West Virginia	Bluefield
June	14-15	Connecticut,	Swampscott, Mass.
June	14-15	Massachusetts	Swampscott
June	17-19	Minnesota	Minneapolis
June	17-19	Iowa	
June	18-20	South Carolina,	Greenville
June	19-21	Illinois	Aurora
June	20-21	Kentucky	Paducah
June	20-22	District of Columbia	Montauk Beach, L. I.
June	20-22	Virginia	Old Point Comfort
June	21-22	Utah	Logan
Aug.	....	Wyoming	Lander

Date		Other Associations	Place
Feb.	13-15	Trust Co. Midwinter Conference	New York, N. Y.
April	15-18	A.B.A. Executive Council	Biloxi, Miss.
June	10-14	Reserve City Bankers	Detroit, Mich.
June	10-14	American Institute of Banking	Tulsa, Okla.
June	14-15	New England Bankers	Swampscott, Mass.
Sept.	30-Oct. 3	American Bankers Assn.	San Francisco, Cal.

Savings Bank Division Regional Conferences

Feb.	27-28	Grand Rapids, Michigan
March	21-22	New York, N. Y.
April	11-12	Birmingham, Ala.
April	24-25	San Diego, Cal.

There was about $130,000,000 less money in circulation at the end of 1928 as compared with the close of the previous year, according to Treasury reports. The total money in circulation on Dec. 31, 1928, was $4,973,168,182 as compared with $5,002,955,681 on Dec. 31, 1927.



New Books

INVESTMENT MANAGEMENT. By Dwight C. Rose. Published by Harper and Brothers, New York. 423 pages. Price $5.00.

A scientific approach to the investor's problem. Actual investment experience in this country since 1900 is measured. This experience is analyzed into its component parts to permit study of the inherent characteristics of various types of securities, and also to determine the causes responsible for the varying degrees of accomplishment from them. From this analysis the author seeks to deduce some of the fundamental principles upon which to develop a conservative and successful investment program and to demonstrate the effectiveness of these principles when applied in practice under actual working conditions.

WHITHER MANKIND. Edited by Charles A. Beard. Published by Longmans, Green and Co., New York. 408 pages. Price $3.00.

The sub-title of the book is "A Panorama of Modern Civilization." Such is the book. It is a critical survey of modern life as it reacts to the ever increasing intrusion of science and invention upon the individual. It reaches the encouraging conclusion that man is not becoming machine-like but the master of machines. The volume comprises sixteen chapters written by recognized authorities in their respective fields, such as: Science, Bertrand Russell; Business, Julius Klein; Labor, Sidney and Beatrice Webb, and Law and Government, Howard Lee McBain.

Dr. Beard and his collaborators have made a stimulating book. Many of its conclusions may strike the reader as startling but they will help thinking people to know what kind of a life they are leading, and where it may be taking them to. The book is of more than economic interest, it is a diagnosis of the fundamentals of modern economics.

National Bank Notes

(*Continued from page* 754)

stead of each bank purchasing one or more plates, and paying for replacements from time to time, a master plate will serve all banks. On the face of the notes printed from this master plate, and to the left of the portrait, will be reserved a blank space into which to imprint the name of the issuing bank. This and the charter number and seal will be imposed in a second printing operation, in the same manner as certain markings are now impressed.

The entire currency revision plan reflects the determination of the department to simplify and standardize the issuance of paper money. In its early consideration of the whole question the Treasury was inclined to look upon national bank notes as presenting some obstacles which might prove difficult to surmount. Studies and experiments, once they were well under way, rapidly broke down the seeming barriers and developed, not only the feasibility but also the desirability of including national bank currency.

National bank notes constitute about 13 per cent of the total amount of United States money in circulation. The decision to continue them in use finds ample support in the result of any care-

ful analysis. They yield a slight profit to the issuing banks, and have an advertising value which is looked upon with considerable favor. They are secured dollar for dollar by United States bonds, and, obviously, notes based upon government bonds are as dependable as the government itself. Likewise, when issued in moderation they carry a very clear advantage. A back-log of currency which will not shrink, which is thoroughly sound, and which for its support does not require the locking up of a large amount of gold is recognized as a decided benefit.

The volume of national bank circulation is not large, and nobody would suggest that it even approaches the maximum which could be issued safely. On the contrary, there is well-grounded and highly-regarded opinion that the total of such currency might well be increased. Only very recently, as a gold conservation measure, England authorized the issuance of a considerable volume of such notes known as fiduciary currency. Furthermore, the new British Currency Act, recognizing the desirability of protecting the gold supply, makes provision for increasing the volume of fiduciary currency if and when such becomes advisable. In America we are not facing a gold crisis; the supply is ample at this time. However, in the light of probable future needs, it does not warrant any extravagances, and the determination to protect it by continuing to use national bank notes must be applauded.

A Possible Consideration

THE considerations which dictated the decision of the Secretary of the Treasury were not made known. Just what his studies developed was not stated. But it is assumed that in his thorough manner he did not overlook and was not unmindful of the advantage to the government of being able to continue to enjoy the use of approximately $700,000,000 of borrowed money at the very low rate of 2 per cent, and of receiving one-half of 1 per cent of it back each year in the nature of a tax on bank notes. Redemption of the circulation bonds would necessitate issuing other securities at perhaps 4 per cent, and thus expending each year in excess interest something like $13,000,000 and losing more than $3,000,000 in tax. Such a course would seem to be wholly out of harmony with the Administration's policy of economy, and that it was not adopted is not surprising.

If further proof were needed to establish the soundness of the determination to retain national bank notes in circulation, it could be found in a consideration of what would happen should they be retired. Presumably Federal Reserve notes would be substituted, and the law authorizing their issuance requires that gold to the extent of at least 40 per cent of their amount be laid away in reserve. This would be approximately $270,000,000. This is the minimum, and it might be much more. The remaining 60 per cent of collateral for the Federal Reserve notes should be eligible paper, but by whatever amount it might fall short of reaching that percentage additional gold would have to be impounded.

That eligible paper would fail to furnish its proportionate share of security is the opinion expressed by Dr. W. Randolph Burgess, of the Federal Reserve Bank of New York. In a recent address to the Robert Morris Associates, in Cleveland, in speaking of the amount

of eligible paper held in the Reserve banks, and of the probable reduced borrowings in the future, he made the point that we cannot look forward with assurance to even the amount of eligible paper we have today. Much less, then, could it be expected to bear its share of the burden of supporting another $700,000,000 of Federal Reserve notes.

Would Gold Always Be Available?

THEN, too, there is the very serious question of whether gold would always be available in a sufficient amount. Yearly production of gold is trailing the increasing world requirements, and restoration of the gold standard in various countries has encouraged the building up of huge domestic stocks of gold. In an article published last November, in the *Annalist*, Dr. Edie said: "The world went back to the gold standard, and that was good. But in the process it contracted a kind of gold fever, an insatiable appetite for the yellow metal. This is the monetary menace of the decade." Thus is suggested the danger of permitting inroads to be made unnecessarily into our gold reserves.

Any consequent inability to increase the volume of currency would halt definitely the expansion of commerce and industry, and would even retard seriously their normal operations.

The so-called surplus of gold in the United States is said by Dr. Burgess, with some explanations, to be about $1,000,000,000. But he indicates that this is by no means a permanent excess. Looking into the future, and contemplating the reduction of rediscounts to a volume compatible with easier money conditions, and computing the consequently larger reserve of gold which will be required as collateral for the same quantity of Federal reserve notes as are outstanding at the present time, he estimates the amount of really free gold at only $500,000,000. And most of this, he explains, is likely to be needed to take care of the country's normal development over a period of five or ten years.

This calculation leaves nothing for gold exports which, there is every reason to believe, have not ceased, nor could it satisfy the requirements for gold to back up the Federal Reserve notes which retirement of national bank circulation would demand. These considerations center attention upon the limitations inherent in our gold reserve, and plead that it be spared all unnecessary invasions.

The responsibility resting upon the Federal government was that of dealing fairly with national banks, and of preserving our monetary and financial equilibrium, not for the present alone, but for the future as well. Adoption of the course chosen and announced through the Treasury Department is reassuring. It averts unnecessary encroachments upon our gold supply and avoids, so far as possible, the precipitation, at some future time, of a situation wherein the volume of currency could not be expanded sufficiently to meet business needs. To fail to be in a position to advance is to encourage a backward movement, and no act of our government should contribute to that end. With the program it has adopted there is general accord.

The opinion has been current that speculation has affected savings business, but there is absolutely no foundation for this opinion and we are inclined to the belief that it has not been responsible for the falling off in commercial deposits.—Will C. Wood, California State Superintendent of Banks.

Third Security Market

(*Continued from page* 742)

ciation was specifically exempted by Mr. Shea from the class of dealers who have come under the eye of state authorities. Members of this organization, however, have not looked with favor upon the third security market.

Well-established dealers in unlisted securities recognize the fact that the extreme activity of the financial markets, especially in recent months, has attracted to the unlisted security business many wolves in sheep's clothing who know little or nothing about the business and who have no scruples in their dealings. But the feeling is that the attention of the authorities should be directed against outlaw activities rather than against the over-the-counter market.

Distinct Differences

REPRESENTATIVE dealers maintain that the mere fact that a security market has been opened by the New York Produce Exchange does not mean that the over-the-counter market will be destroyed. It is their belief that Produce Exchange trading will not awaken sufficient public interest in the present unlisted securities to make an over-the-counter market unnecessary.

Public interest in the first place comes from speculators. The argument is made that without speculative interest there cannot be sufficient activity to sustain an exchange. At the same time it is insisted that many companies do not want their stocks to be the objects of speculation and prefer to have their securities traded in over the counter.

There are distinct differences between the functions of an unlisted security dealer and a broker. How these differences may be reconciled are one of the problems of the new exchange. The unlisted dealer's function has been described as shopping around until an equable market for a security has been found. They take a position in the security—they stand ready to buy or sell at a given price, whereas the broker merely executes an order to buy or sell, either at the market price or when the market price coincides with his customer's instructions.

Thus the experiment of a third security market involves the issue of the respective values in the investment field of over-the-counter prices and market prices fixed by public bidding. There cannot be both types of trading in the same classes of securities. Unlisted securities on the new market become at least to that extent listed securities. The question is whether the third market will eventually reach out and take in the thousands of securities now dealt in over the counter. That is the real experiment.

German business conditions in 1928 were less satisfactory than in 1927 according to the Commerce Department.

Condition of Business

(Continued from page 792)

deposit liabilities combined, decreased to 61.6 per cent on Dec. 26, which was the lowest for eight years back. Now, however, due to member banks paying off their indebtedness as they liquidate their own loans and deposits, the ratio is up to around 70 per cent again.

Brokers' loans have continued to absorb more credit. Last year the financial world was amazed to see their borrowings cross the $4,000,000,000 mark, in April, but by November they crossed the $5,000,000,000 mark and are still rising. Present outstanding of around $5,500,000,000 is a new high for all time, and contrasts with $3,800,000,000 in February, 1928.

Whether or not this increase of nearly 50 per cent in twelve months is justified by increased listings is hard to say, and it is equally difficult to agree on any measure of just how large these loans should normally be. Some people are now saying that $10,000,000,000 would be a normal figure, considering the vast wealth now represented in securities, and that the banking world must not compare present loans with a year or more ago—that we are in a new economic era, etc.

What is more important than any discussion of how large brokers' loans should be, is the practical fact that, in the last analysis, the credit for this and other purposes all rests on the same reserve—the gold held by our Federal Reserve Banks. There is a limit to the safe expansion of credit, and, according to interest rates, which are customarily taken as the indicator, present expansion has entered the zone of definite strain and possible danger.

Several importations of gold have recently been made from London to take advantage of the depressed rate of sterling exchange. As the movement has already amounted to around $50,000,000, the satisfaction upon its receipt in this country where it will serve to relieve credit tension is equalled only by the nervousness of English bankers who have supplied about half of the sum from their central bank reserves, most of the balance being new metal from South Africa.

Seldom has there been a more striking example of the broad-mindedness of American bankers generally and their allegiance to sound policies even at a sacrifice to their own immediate interests, than is found in the present money situation. Bankers have continually warned the public against too rapid an expansion in borrowing on securities, which, if disregarded, results inevitably in tight rates and a large volume of credit tied up for a long period, and this means high earnings for the banks.

Bond Market Still Depressed But Tone Is Better

NO appreciable lightening of the pressure of tight money on the bond market has occurred, but the tone

is slightly better and average prices of seasoned issues strengthened fractionally during the month, but stand two or three points below February last year.

When yields on stocks have declined to 4 or 3 or 2 per cent, or even to nothing at all, as at present, many investors feel that the time has arrived to sell out their common stocks, which are not earning carrying charges, and to switch into senior issues that will net them 5 or 6 per cent, or even better. Undoubtedly this accounts in some degree for the resumption of activity in bond trading, and it will probably increase.

Nevertheless volume of trading in listed issues during 1929 to date is 20 per cent behind 1928 and is 40 per cent behind 1927. In contrast, trading in listed stocks during 1929 to date is 80 per cent ahead of 1928 and 120 per cent ahead of 1927.

New underwritings were somewhat better in January than in December. Among the sizable offerings were $32,000,000 serial 5s of the Railway Express Agency, Inc., which has been formed to take over the express business on all American railroads from the American Railway Express Company. Two issues of $25,000,000 each were offered by the Associated Gas & Electric Company and the American International Corporation.

On page 792 is a tabulation of all issues of $5,000,000 or more during the month.

The Outlook for Money

CONTINUANCE of firm money rates, with the possibility of some further tightening in the spring under the influence of the usual seasonal expansion of business activity, seems to be indicated from the forecasts of leading banking institutions.

Certain elements of uncertainty are recognized, especially the future effects of gold movements, although at the present there is a general inability to forsee a trend either toward net gold imports or toward net exports, or more properly toward substantial earmarkings of gold. Nevertheless there is an evident disposition to regard the money situation with equanimity with some exceptions.

Notable among the exceptions is the Cleveland Trust Company. In its monthly bulletin it says:

"Interest rates on time loans secured by collateral have been higher during the past six months than they have been during any other six months period in our history, except during 1920. This unusual condition has caused nearly all the year-end commentators to view the credit situation with alarm in their reviews of business and finance during 1928, and in their estimates of the prospects for 1929. Their anxiety is well founded, for we have never had a period with interest rates even comparably as high as those now prevailing that has not been followed by a sharp downturn

Walter O. Woods, of Kansas, the new Treasurer of the United States. He was formerly Register of the Treasury

New Book

STABILIZATION OF PRICES. By Joseph Stagg Lawrence, Instructor, Department of Economics and Social Institutions, Princeton University. Published by the MacMillan Company, New York. 473 pages. Price, $5.00.

A critical study of the various plans proposed for price stabilization, including the Ford plan and the proposed Strong amendments to the Federal Reserve Act. The book is an attempt to state and analyze a problem which is engaging the attention of bankers and business men as well as economists.

in security prices, and by a serious recession in general business.

"The immediate cause of the current high interest rates is stock speculation. Probably the basis of it lies in the fact that American industry and commerce have been passing through a rapid evolution in this decade, during which a considerable number of firms have forged so rapidly ahead in earning capacity that the value of their shares, and the volume of their dividend payments, have increased with almost magic speed."

Possible developments with respect to gold are strongly emphasized by the Guaranty Trust Company of New York in its monthly survey.

INDEX TO ADVERTISERS

The Trend of Banking Costs and Profits

(*Continued from page 753*)

interest should focus on Chicago. The national banks doing business in Chicago have increased from thirteen in 1908 to thirty-eight in 1927. Their invested capital in 1908 was $45,175,000, and in 1927, $104,180,000. Deposits grew from $358,316,000 in 1908 to the vast total of $1,029,307,000 in 1927. Chicago's banks are so much larger than any of the other cities selected that a comparison with them would serve no particular purpose.

Chicago Revenue Low

IT is pertinent, however, to align the percentages of Chicago national banks with the national banks of New York and Philadelphia for the same period. In doing this it is observed that the average over the twenty-year period is not especially favorable to Chicago, the percentage of gross earnings being 4.71 per cent as against 4.91 per cent for New York and 5.06 per cent for Philadelphia. Deductions for expenses, losses, and depreciation in Chicago average 3.60 per cent for the entire twenty-year period as compared with 3.57 per cent for New York and 3.73 per cent for Philadelphia. Net results were 1.11 per cent for Chicago, 1.34 per cent for New York, and 1.33 per cent for Philadelphia for the twenty-year period. It is rather surprising to find that the Chicago banks received a lesser rate of gross revenue and also a considerably smaller rate of net profits than the other two cities, and especially when New York and Philadelphia so closely parallel each other in the percentage of net profits.

GROSS EARNINGS
(Percentage of total deposits)

	Chicago	New York	Philadelphia
1908	3.75	3.86	3.79
1910	4.23	4.21	3.44
1912	3.92	4.34	3.63
1914	4.78	4.11	4.29
1916	3.79	3.66	4.57
1918	4.70	4.92	4.86
1921	7.55	7.31	7.22
1922	5.78	5.32	5.77
1923	4.86	5.84	5.38
1924	4.49	4.43	4.98
1925	4.10	4.52	4.74
1926	4.56	4.76	5.14
1927	4.58	4.81	5.25
Average	4.71	4.91	5.06

NET PROFITS
(Percentage of total deposits)

	Chicago	New York	Philadelphia
1908	1.36	1.72	1.41
1910	1.27	1.85	1.26
1912	1.21	1.68	1.11
1914	1.43	1.28	0.94
1916	0.83	1.16	0.93
1918	1.60	1.37	1.42
1921	1.94	1.31	1.57
1922	0.92	1.06	1.30
1923	0.80	1.60	1.55
1924	0.93	1.15	1.31
1925	0.64	1.27	1.25
1926	1.07	1.19	1.39
1927	1.18	1.50	1.48
Average	1.11	1.34	1.33

The record of Minneapolis banks shows the largest falling off in net profits of any of the other five representative cities, the figures for which are being given individually. Having the same number of banks in 1927 as there were in 1908, the comparison is eminently fair. While there has been an enormous increase in deposits, nearly 300 per cent, the percentage of net profits has decreased from 2.38 per cent in 1908 to considerably less than 1 per cent for each of the last six years, and in one of those years an actual deficit for the year's operations was sustained. Strangely enough, these low net profits have not been caused so much by losses, which have been quite reasonable, but are directly due to high expense ratios in comparison with gross income. The trend in recent years has been toward a lowering of expenses, but net profits still remain at a very low point.

THE figures for the other four cities are set forth below in two tables, in percentages, one showing gross earnings and the other actual net profits.

GROSS EARNINGS
(Percentage of deposits)

	Detroit	St. Louis	Milwaukee	Cincinnati
1908	5.33	5.00	4.21	5.02
1910	4.84	4.65	5.11	5.78
1912	4.08	4.74	5.47	5.42
1914	3.66	5.28	5.68	5.91
1916	4.20	4.46	4.80	5.91
1918	5.06	5.51	5.48	6.26
1921	7.53	9.41	9.43	8.07
1922	4.96	5.92	7.42	6.86
1923	5.26	5.83	5.68	6.58
1924	4.96	5.51	5.31	6.33
1925	4.18	5.13	5.11	5.92
1926	4.76	4.80	5.29	6.26
1927	5.25	5.51	5.25	8.39

NET PROFITS
(Percentage of deposits)

	Detroit	St. Louis	Milwaukee	Cincinnati
1908	0.81	2.14	1.57	2.05
1910	1.61	1.40	1.13	2.51
1912	0.97	1.02	1.55	0.87
1914	0.94	1.45	1.18	1.99
1916	1.11	0.84	0.91	1.68
1918	1.65	1.59	1.13	2.32
1921	1.37	2.11	2.58	1.93
1922	0.92	1.19	1.05	1.94
1923	0.91	1.18	0.84	1.82
1924	0.96	1.08	1.00	1.63
1925	0.83	1.30	0.46	1.90
1926	0.86	1.11	1.18	1.56
1927	1.03	0.88	1.22	2.36

In Cincinnati there has been a considerable decrease in invested bank capital, due presumably to the transfer of much of such investment to state banks and trust companies. The figures speak for themselves, each of the net results showing a falling off from the profits enjoyed in former years, and in several cases a rate of gross revenue considerably under the national average.

It is coming to be generally recognized in banking circles that a more scientific basis of administration must be used, and the development of such a basis must come from a study of the experience of the best group of banks where these records are available. So far the records of banks in four districts of the country, as presented in this series of articles, have shown similar trends; that is, tremendous increases in volume of deposits, a falling off in the rate of gross revenue and a decline in the percentage of net profits to a level on which banks cannot operate safely and return a fair dividend to their stockholders.

In previous articles of this series Mr. Miller has analyzed national bank operations in the country as a whole; in the New England states, the Eastern states and the Southern states.

WHAT DO YOU THINK?

***Being a more or less personal talk between the* EDITOR *and the* READER**

The Bank and the Customer

WHAT Iowa expects of its banks and of the customers of its banks is summarized by L. A. Andrew, State Superintendent of Banking, in a letter to a new institution opening its doors for business within his jurisdiction. The letter said:

"The Banking Department wishes the bank opening this week, every success. A bank is a real asset to a community and is necessary for the proper functioning of all lines of business. A bank should be recognized as an economic necessity. Well managed banks are entitled to the confidence of the people of the community in which they do business. There is an obligation on both sides of the bank counter. The bank has the obligation of keeping

the depositors' money safe and running its business so it can pay back the deposits in accordance with agreements made. It should provide good banking service but should expect and receive proper compensation. On the other side of the counter the customer, if he is a borrower, should remember that he is asking the bank for the loan of money for which it acts as trustee to its depositors. He should offer proper security in every case and a proper compensating balance. He should keep on file with his bank a current financial statement showing his net worth. He should borrow from a bank only that money he can pay back as a result of his business operations. He should not ask a bank to become a partner in his business or to make a loan which he cannot pay promptly. Loans which cannot be paid out of business operations should be made on proper first mortgages, with a good margin of security for the bank.

"A bank is primarily an institution to receive and keep safe the money of its depositors and at the same time make money for its stockholders. In order to do this it must loan out a legal percentage of the money deposited, using at all times the greatest care that proper security is given along the above lines.

"The officers and directors of a bank must use every precaution to handle their business in a safe manner. They, and not the borrower or the depositor, must run their bank. Certain rules with regard to the amount of interest paid and charges for banking service must be adhered to in a strict manner. All borrowers should take care of their notes promptly. Depositors who deposit money for a specified time have an obligation with the bank to fulfill their part of the contract, as they receive interest so that the bank can loan a larger percentage of their deposit.

"These functions of a bank and its customers are not always followed and we are glad to give them to you at the opening of this new bank, because if they are adhered to by the people on both sides of the bank counter it will help greatly in making the bank the success it ought to be."

In a Country Village

THERE is a New York state village which in recent years has lost one church and two steeples!

What has that to do with banking?

Patience; we will come to that presently.

It is a remarkable village in a way—remarkable in that for half a century—and probably for a much longer period—the population has remained practically unchanged, varying little from 1,400 inhabitants.

The changes occurring in that kind of a community might perhaps form an interesting study against the background of the average growing town. And unique among the changes is the loss mentioned in the foregoing of one church and two steeples, explained in the following way:

The congregation of one church languished through some years, dwindled away and the property was sold. A few years afterward another church found its steeple to be in need of repairs, and removed the steeple as the easiest way out of the predicament. A little more time ran on and the trustees of a third church discovered that the steeple of their own edifice was in danger of falling down, so they had it taken down and like their neighbors are getting along without a steeple.

Now the one bank in the village, housed for years in a very modest, small unpretentious building, has rebuilt its banking house, in the modern style and of the material in vogue for banking fronts. The bank is the best looking commercial building in the community. It radiates prosperous modernity and seems to invite the passerby to enter.

So, as the reader no doubt has anticipated, there seems to have been a recession in the edifices devoted to religion, but an aggressive advance in money matters.

We wonder if these outward changes are in any sense reliable indicators of trends on a wider scale than is encompassed in the life of this one small community.

"Directors Would"

DISCUSSING the duties and responsibilities of Bank Directors, J. P. Steele, president Citizens National Bank, Winterset, Iowa, writes:—

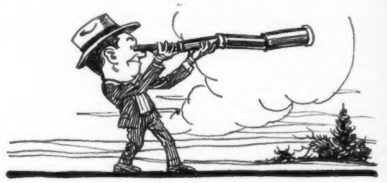
"I believe that all loans should be made at a uniform rate. It matters not what the rate, 6, 7, or 8 per cent. In this way you have a uniform criterion by which all loans are measured. Then if the cashier or credit officer has any reason why there should be a variation in any particular case, let him report the particular facts in each case to the Board of Directors, and then, with the facts before the Board, let the Board determine by a majority vote what should be done in each case, and the cashier instructed to abide by the majority vote of the Board of Directors.

"In this way, as the law contemplates they should, the Board of Directors would be controlling the bank's business, the bank's business would not be left to the judgment of one person, and the Board of Directors would not be permitted to avoid their legal duty by saying, 'Amen!' to the opinion of one man. Surely, something should be done to compel the Board of Directors to perform its legal duty under the law."

"What Can the Little Man Do?"

A KEEN country banker, with no thought of writing for publication, penned the following word picture of the trend toward centralization:

"I believe that the regional idea comes a generation too late to stem centralization. In their intense individualism and mutual distrust the bankers of the country have entrenched themselves until now centralization is beating at the door and entering the house by both back and front door and with the active assistance of the Treasury and the Federal Reserve moguls. I wonder whether any appreciable number of country bankers are reading the skies these days. In the great cities every



sort of method is being employed, from physical consolidation and holding companies to pools and syndicates, but all resulting in centralization and a reduced number of managements. With financial power determined upon aggression and 'assimilation' and the governmental agents from the merest national bank examiner on up to the Federal Reserve Board rendering eager aid, what can the little man do, except to early and readily join the movement and become a smaller cog in a bigger machine with 'remote control,' and with it all goes individual initiative for small business men, who won't get credit and must soon in their turn look for oblivion in some 'chain.' "

"If you will not hear reason," Poor Richard observed, "she will surely rap your knuckles."